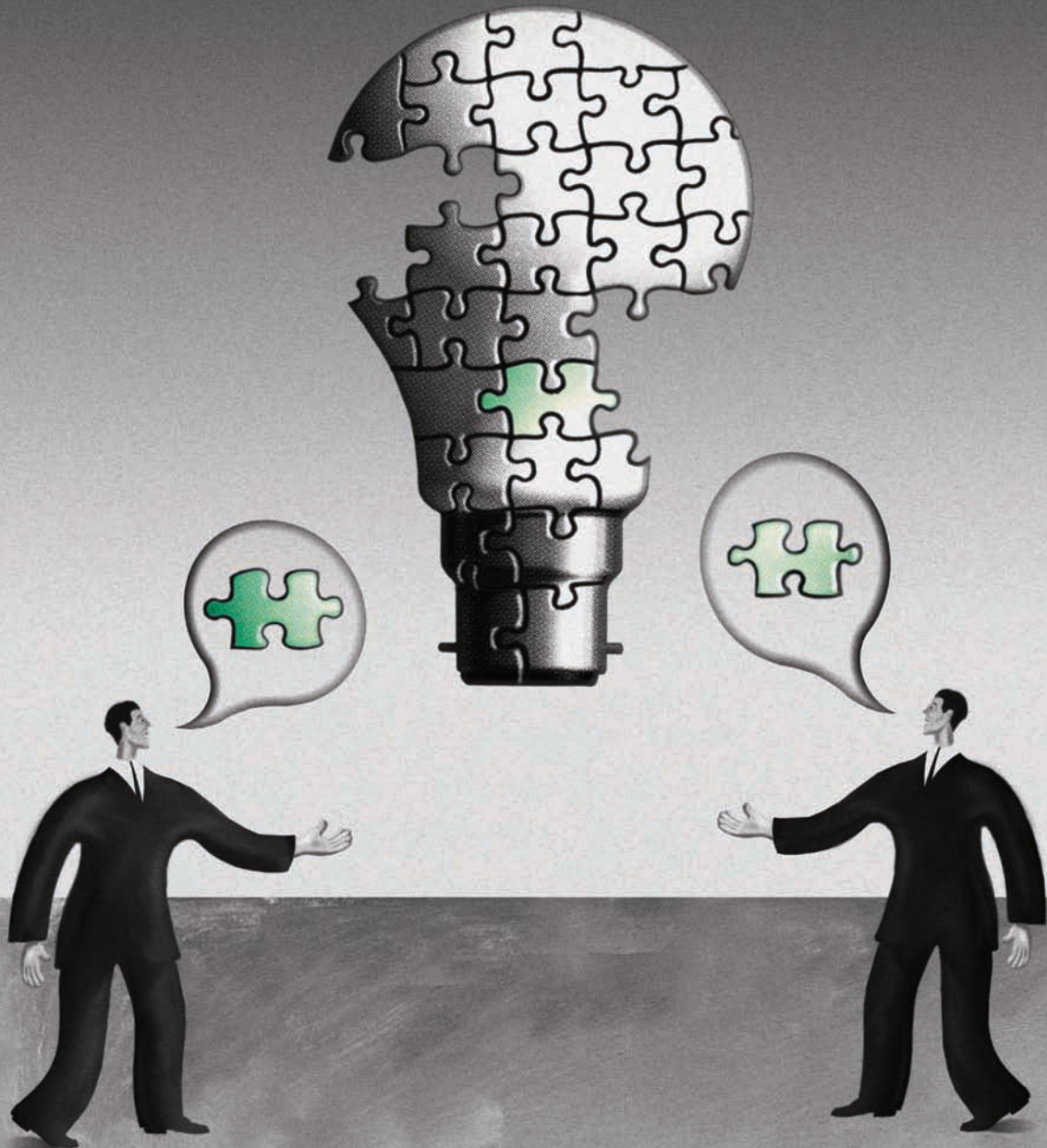


From Challenge to Change: Business Schools in the Wake of Financial Crisis

Essays from GFME Board Members



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Foreword

Out of the (latest) Crisis



In 1982, W. Edwards Deming's landmark book, *Out of the Crisis*, changed the way businesses thought about making things. It showed managers in the US and Europe how to build products and deliver services with the meticulous attention to quality for which Japanese business was known (and which Deming himself, stationed in a war-wrecked Japan in the late 1940s as part of the Marshall Plan, had helped engender).

Fast-forward to the end of the first decade of the 21st Century, and we are asking ourselves how we will get out of our latest crisis; one where the world's financial systems lurched perilously close to collapse. The global economy will certainly recover – it is remarkably resilient. Eventually the Great Recession will become a distant memory, a curiously deep trough in business cycle charts of the future.

We believe, however, that a host of policies, institutions, and beliefs will emerge from the crisis in very different forms. From the tattered relationships of the crisis may come bright global prospects, which will carry new responsibilities and commitments from individuals, organizations, and societies. There are calls for more responsibility amongst business practitioners; calls for greater attention to sustainability and long-term thinking; calls for managers to rediscover an ethical and moral compass; to look differently and more deeply at risk and reward.

Management education and development should not and will not be exempt from change – its course is being altered right now by leaders around the globe. This short volume hosts a collection of thoughts and opinions by several of these leaders about the changes that ought to occur in business schools.

The collected papers bring together deans and directors from the UK, Canada, USA, Poland, Spain and Thailand, as well as the directors and presidents of the world's leading business school accreditation bodies, the Association for the Advancement of Collegiate Schools of Business (AACSB) and the European Foundation for Management Development (EFMD). It has been put together under the leadership and guidance of the Global Foundation for Management Education (GFME), an organizational collaboration between AACSB and EFMD. It is published by the world's leading scholarly business and management publisher, Emerald Group Publishing. AACSB and EFMD are both international in scope, with the former having its roots in the USA, and the latter in Western Europe. Emerald operates globally, having established publishing and customer support offices worldwide.

We hope this selection of thought pieces may be the beginning of a repository of both philosophical reflections and actionable changes which will be added to over time. They should be regarded as both a snapshot of current thought at the end of the decade, and something of a call to arms.

Those of us working in business education, and serving the industry, touch a high proportion of people who are, and will be, among the most influential people on the planet. The GFME estimates that business schools are home to 25 million degree-seeking students and that countless more participate in university-based executive education and management development programs. That means that what we teach them, and what we research to inform how we teach them, matters.

The recent financial crisis has provoked a range of useful but sometimes difficult questions about the purpose and function of business education and research as it

shapes business practice. What should purpose of all this management education be? What should be the shape of research and study? Business, and the society within which businesses operate, sometimes seem to have developed in separate and opposing directions. If that is the case, what can business education and research do to shed light on the problem? Can researchers help business and society towards greater alignment?

Our primary objective in putting this volume together was to stimulate creative thinking about these and other issues. The authors do not always agree, even about whether substantial change is needed. But why should they agree when their experiences and contexts have been so different. They do not share a common set of assumptions or questions. But all of these differences are exactly what we expect from such a diverse set of authors writing about an uncertain future and subject of critical importance.

Eric Cornuel, Director-General of EFMD, proposes that business education needs to broaden its focus towards social responsibility and ethical practice. In a similar vein, John Fernandes, President and CEO of AACSB International, looks forward to stronger and better business schools as a result of the crisis, and a refocus of curricula towards a proper understanding of risk management. EFMD's Gerard van Schaik further develops the theme of linking business education aims to social ones.

Andrzej Kozminski, Rector of Kozminski University in Poland warns against the dangers of homogeneity and a 'one-size-fits-all' approach, and of becoming too fixed around a set of precepts. Santiago Iniguez de Onzono of Instituto de Empresa in Madrid also suggests a change of curriculum emphasis towards a wider humanities perspective, while setting a challenge to realign academic research with real-world needs. From a different perspective, Howard Thomas and Alex Wilson of Singapore Management University and Warwick Business School in England also seek more relevance, but by "finding the voice of practice" in research, rather than perpetuating a linear supply-chain approach where academics produce and managers consume.

Both Richard Cosier of the Krannert School, Purdue University, Indiana, and Michel Patry of HEC Montreal envisage the possibility of business education stepping beyond being part of the problem, to being part of the solution, through examination of the economic and behavioural roots of the crisis and discussion of positive steps forwards. Gasinee Witoonchart and Fredric William Swierczek, Thammasat Business School, dismiss a superficial 'Hippocratic Oath' approach to engendering more ethical managers, and looks instead at underpinning business and business education within the context of Buddhist principles.

In all, then, some challenges for business education leaders as we look forward to recovery. Most of the authors take a view that business schools have a valuable role to play in shaping a better world. Those of us who care about business education and the impact of business research should seek to rise to the challenge.

We hope that these essays will form the basis of a growing collection, which can be both discussed and developed. We welcome comment and contribution. □

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January 2010

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“This should be regarded as a snapshot of current thought at the end of the decade, and something of a call to arms.”

Impactful Management Research: The Importance of Finding the Voice of Practice in Management Research¹

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Management research in business schools faces increasing internal and external criticism for the production of rigorous and theoretically grounded but irrelevant research (Mintzberg, 2004; Pfeffer, 2007). This criticism is compounded by often unfavourable comparisons between the academic stature of business schools relative to other professional schools (e.g. medicine, law and engineering) (Bennis and O'Toole, 2005; Khurana, 2007) and to the university communities which they reside (Starkey and Tiratsoo, 2007).

Management research must be considered both in terms of the competitive environment of business schools (Antunes and Thomas, 2007; Thomas, 2007) and the role of research in the management education process. It is particularly important to examine how research can energize and re-engage the brain and the voice of business schools in achieving a more effective strategic positioning in the context of the modern university. Ongoing debates suggest that there is a gap or imbalance between theory and practice in both management research and in management teaching. Business schools (and the various constituents of the research community), therefore, need to consider how best to escape their various *ivory towers* (Crainer and Dearlove, 1998) without sacrificing the academic rigour shown in other professional schools. Business schools may also need a renewed focus and engagement with the needs of practitioners.

The Association to Advance Collegiate Schools of Business (AACSB, 2007) report usefully examines the impact of management research in business schools: The authors of the report note that: "The rapid change in the size and stature of research in business schools has engendered passionate dialogue and debate. For example, business schools have recently been criticized for placing too much emphasis on research relative to teaching, and for producing research that is too narrow, irrelevant, and impractical" (AACSB, 2007: 10). Despite underlining the 'passionate dialogue and debate' that surrounds the purpose of research and the problematic relationship between theory and practice, the AACSB "...does not take a position in the ongoing debate about relevance vs. rigour" (AACSB, 2007: 11).

The AACSB report (2007) identifies three areas where the impacts of research are found: increasing disciplinary knowledge, contributions to the practice of management and pedagogical research. Within each of these areas the AACSB identify the intellectual contributions from business schools. For example, contributions to discipline-based scholarship are found in peer-reviewed journals, research monographs and across the output from scholarly meetings and seminars. Contributions to practice are to be found in professional or trade journals and magazines, reports and books, as well as from presentations and meetings between academics and practitioners and also in the "popular" business press. Finally, pedagogical contributions are made in articles and cases, manuals and textbooks, instructional software and in the design and debates on business school curricula.

¹ This essay is drawn from a much longer paper: 'An analysis of the environment and competitive dynamics of management research' by Howard Thomas and Alex Wilson, *Journal of Management Development*.

The report also provides a useful overview of where intellectual contributions from management research can be located. However, Davenport and Prusak (2003) suggest that there is limited transmission of new ideas for management or business from business schools. Even where the work of business school academics has been adopted in practice (by managers and by consultants) this has been through immediate channels (for example, Harvard Business Review) rather than through the high-impact rated scholarly (peer-reviewed) journals. So, while the output of management research may be aligned toward disciplinary knowledge, practice, pedagogy, or a combination of these, the impact on management practice generally is neither fully understood nor clear. Indeed, research by Baldrige et al. (2004) reveals a very weak correlation linking the academic quality of research with practical relevance.

It is important to recognize that the domain of management research is not exclusive to business schools. The uncomfortable gaps between theory and practice have meant that research (in a general sense) is sometimes conducted by management consultancies, specialist research firms and so-called 'gurus'. Whilst the attraction of hiring bespoke research is undoubtedly valuable because it is customized and unique to a particular organization, Schoemaker (2008: 131) observes that "[t]oo often, armchair speculation and guru books fill a void that should be addressed through relevant scholarship." Nonetheless, the ways of operating and success of these competitors supports the argument that business schools are not fully engaged with managers and management practice. If, as Schoemaker (2008: 125) writes, "competition is intense, and yet winning requires collaboration", then collaboration and learning are required between management consultancies, specialist research firms and 'gurus' to begin to unravel the complexities of management practice and the means of engagement.

There is a broad consensus that there are many instances of management research in business schools which are of limited relevance to management practice and that efforts to engage with practitioners are essential. The solutions to this controversy are extremely varied and include: Regaining management as a profession (Bennis and O'Toole, 2005; Khurana, 2007), developing a critical lens for conceptualizing managerial problems (Grey, 2004), evidence-based approaches (Pfeffer and Sutton, 2006b; Rousseau, 2006; Pfeffer and Sutton, 2007; Rousseau and McCarthy, 2007), adapting means of translation between theory and practice (Wensley, Forthcoming) or the ideological transformation of the business school as an institution (Starkey and Tiratsoo, 2007; Starkey and Tempest, 2008; Starkey and Tempest, Forthcoming). Our conjecture is not with any of the 'solutions' being offered, more on the state of the debate itself. The 'voice of practice' has become lost; the debates on practice are very much internal to the academic community – where is the voice of practice? Business schools need to devise appropriate patterns of linkage and engagement in order to be able to listen to the competing demands of management practitioners. If this is completed effectively, business schools will then be in an informed position to discuss the technicalities of engaging with management practice and thus produce results that become increasingly valuable to management.

We would argue that the current situation of only partial engagement with practice is sustained by institutionalized norms in management research through performance measures for individuals and institutions, the dominance of US, MBA models of management education and disciplinary cross-fire within management research. For example, the benchmarks and objectives for measuring practical relevance are largely internally generated. Quite often measures such as publication or media coverage of research output are taken to imply a level of engagement with practitioners. Simultaneously, "practice" is too often used as a catch-all term in much the same way 'the environment' was used to explain unintended consequences in early contingency theories of organization. Theory is inside business schools and practice is out there in the world of business. Taken to its logical conclusion, what practice is and where practice happens is often at the disposal of the researcher.

"It is important to recognize that the domain of management research is not exclusive to business schools."

Without finding a voice of practice, the practical impact of management research is largely an exercise in engineering and subsequently 'solving' research problems. This calls for, rather than a more sophisticated theory/practice debate, a more open and engaging debate with businesses, consultants, unions, trade associations, regional economic forums, various tiers of government and so on. Using these dialogues to find the voice of practice, management research is then better-positioned to adopt some of the more innovative solutions to engaging theory and practice already discussed.

However, we would also like to propose the additional consideration of 'consumption' as critical in understanding the relationship between theory and practice. Gabriel argues: "... organizational theories, like other commodities, are not used in a passive way, in general, but creatively, opportunistically and individualistically. In this, they resemble cooking recipes and cookery books, which different users employ or experiment with in widely differing ways, for widely differing ends" (Gabriel, 2002: 134). In this sense, it is neither the nature of what is practiced by management nor our understanding of practice by management research that renders research output actionable by practitioners; rather, it is the combined factors of dissemination and consumption that achieve this.

Our rationale for focusing on dissemination and consumption is twofold: The first relates to the numerous criticisms of the MBA degree and the political construction of its role in corporate failure. Certainly, the MBA and its relevance in, and for, contemporary management is problematic (c.f. *Managers not MBAs*; Mintzberg, 2004). However, we argue that the attribution of blame for corporate failure on business schools, particularly MBAs, is incomplete. Indeed the MBA may stand 'guilty as charged'. From our perspective, the absence of any analysis of dissemination and consumption of research (Gabriel, 2002) renders the cause-and-effect view between MBA education and corporate failure polemical. This critique questions the linear model of knowledge creation with business schools as knowledge creators and managers as consumers of knowledge. Secondly this approach can help towards building greater understanding of the consumption of theory from management research, which is inextricably linked to our first conjecture. The voice and character of 'practice' warrants closer attention, especially if progress is to be made through understanding practices of dissemination and consumption of management research. □

Business Education and the Current Economic Crisis: An Institutional Perspective

Michel Patry: Director, HEC Montréal



In this essay, dedicated to the role business schools played in the development of the current economic and financial crisis and to the impact that the crisis might have on management education, I make three propositions: (a) that business schools are not responsible in any significant way for the crisis; (b) that business schools will not be significantly impacted in their programs and functioning by the crisis; and (c) that they might play a role in restoring the confidence of the public in business in general and in the efficiency of market economies, as well as the confidence of employees in the organizations that hire them – but that this is far from certain.

Business schools are not responsible for the crisis!

I believe that criticisms directed at business education and business schools in recent months by many observers and even members of the business education community are largely unfounded.

The current economic crisis, as with those which preceded it, is unfortunately a distinctive feature of capitalism. As Marx, Schumpeter, Keynes and many others have pointed out; market economies are fundamentally dynamic and evolving. Most of the time, adjustments to market processes are fairly smooth and, aided by appropriate macroeconomic policies, generate growth and overall prosperity. But, from time to time, expectations by consumers, firms and financiers get misaligned and a recession or a depression (such as those from 1893-1897 or that of the 1930s) occurs.

Detailed post analyses of the causes of such depressions or crises generally reveal that a combination of factors were at play, triggering some sort of perfect storm: the expectations of investors, consumers and business suddenly changed directions, generally amid a crisis of confidence, and the free functioning of markets entered an implosive cycle... As Taleb's *Black Swan*, these occurrences are very rare, have a very profound impact and, a posteriori, are seen to have been unavoidable.

So, where does business education fit into this picture? Have business schools made things worse? On the whole, I think not. To begin with, serious recessions and depressions occurred long before business schools came into being. Furthermore, the global economy went through a phase of rapid growth from the middle of the 1980's: should business schools have been commended for that? Not anymore than they should be blamed now.

The criticisms directed at business education generally revolve around two claims: first, that the crisis was brought about by managers educated in business schools which do not pay enough attention to social responsibility, ethics and governance; and, second, that some theories or models we teach could be held responsible for the crisis, such as the principal-agent model or the portfolio model in finance.

Yet the root causes of the current economic crisis, as in the past, are many: insufficient regulation of banking activities, complexity of certain financial products and a lack of

transparency in the market about these products, serious errors in risk assessment, and the sub-prime crisis in the housing market, to name the most obvious. This cocktail of causes led financial institutions to take undue risks.

Clearly, the managers of many (not all) financial institutions have a responsibility in this story. Many took huge risks to maximize their short-term remuneration and a classic case ensued of the internalization of benefits and the externalization of costs and risks.

However, the question is: what role did business education play in the unfolding of this crisis? Are an insufficient concern for ethics and the increasing complexity of financial products to blame? If so, business schools have to amend their programs and approaches. I will argue to the contrary, although this does not imply that business schools should not learn from the crisis and introduce socially desirable innovations.

Let me briefly respond to those who claim business schools are responsible. To the first point, concerning the unethical behavior of some managers, I contest that today's managers are not, on the whole, more greedy or narrow-minded than their predecessors because of what they learned in business schools. I can find no evidence to support this view. Think of the landowners in ancient Rome, of the bankers and traders in medieval times, and of the industrial barons of the nineteenth century.

At the core of this criticism we find a denunciation of greed and antisocial behavior. Naturally, I agree with those who think that business education should fully encourage and stress the importance of socially responsible and honest conduct. Yet, as the moderns taught us, humans are imperfect creatures.

Actually, this is the cornerstone of modern political philosophy and economics, as the works of Machiavelli and Smith make clear. The fundamental lesson is that one should not design institutions that require the highest moral qualities from all. As Leo Strauss famously put it "The moderns built on low, but solid ground."

Consequently, if we are to understand human behavior and influence it, we must recognize self-interest and, unfortunately at times, greed and opportunism. Managers should be asked and strongly encouraged to conform to the highest ethical standards (some will; but, alas not all) and, simultaneously, to be prepared to deal with departures from this standard. I concede that this is a tragic, but realistic, view.

One should not hold it against business schools that their teachings and models give a lot of attention to self-interest. They should, as they should also focus on the common good and the connections between the individuals, business, and society. This brings us back to the design of institutions and to the role of managers: to influence morally imperfect individuals to cooperate (this was Chester Barnard's injunction) and to generate socially desirable outcomes for the organization and for society.

Furthermore, the claim that business education is morally questionable is most surprising given the changes in curriculum, particularly in MBA programs, most schools have introduced in recent years to cover ethics, governance, sustainability and corporate social responsibility. While more could certainly be done to further the integration of those issues with the functional areas, they are at the core of our curriculum and research as mirrored by the importance allocated to those issues at AACSB and EQUIS meetings.

Finally, the second claim questions theorizing that occurs in business schools. Are the models and representations that we find in business education adequate or lacking? All models are essentially lacking and imperfect. We all know that. We also know that a theory is not rejected because it is faulty; it is rejected when a better one is developed.

Yet business schools have a serious responsibility to critically assess the models and representations that are central to business education and practice. It is also their responsibility to critically assess the "knowledge" and the "models" that are developed by industry and civil society. This is particularly important during a period of rapid innovation.

Financial theories are currently criticized because they presumably allowed the development of financial products, the values of which are now being questioned; or because they possibly relied too heavily on the Gaussian normal distribution for explaining stock market behavior.

Should business schools be blamed in this way? This is, in my opinion, far from certain. Take the financial products argument: I would suggest that many innovations for pricing and evaluating complex financial products have been developed by private commercial organizations and, had business school professors been able to access the data and replicate the valuation and pricing decisions of these organizations, the market for these products would have been more robust and efficient. (I shall return to this point later in the essay.) I also conjecture that many of these innovations, once polished and properly reassessed, will prove to be valuable tools to manage risks in the long run.

In other words, I think that research in our business schools has never been so strong. At the same time, the importance of the research and of its transfer to the public domain has never been so great. This is because our economies are increasingly knowledge-based and ever more dependent on intellectual innovations, the values of which should be ascertained by the universities, and particularly by researchers in business schools.

To conclude my first proposition, more could certainly be done about ethics and socially responsible leadership and behavior, but I doubt that it would have any serious impact on the likelihood or severity of the next crisis. On the other hand, better incentives, regulations, and organizational design could certainly contribute to eliminating the main defects of the existing state of affairs. Again, work on this issue is already well under way in many areas of our schools.

The problem, however, is that we don't know what the next wave of innovations will be made of, nor do we know if institutions and organizational routines will adjust fast enough to prevent other crises. For these reasons, managers should be trained to be forward-looking, to have an approach to problems as holistic as possible and to be analytical. What worked yesterday and what works today may not produce the same results tomorrow: this is the real challenge facing business education today.

In short, I argued that we should not deceive ourselves into believing that we have a greater social importance than we really have. If business education and business schools cannot be totally absolved from blame for the current mess, they are not, in my mind, significant contributors to the crisis.

Do not expect a major impact on the MBA curriculum

What will the impact of the crisis be on what we teach in our schools? And on how we teach? Those who argue that some elements at the core of business education are to blame for the eruption of the current crisis should be calling for major reforms in our curriculum and programs.

I do not share this belief, but I nonetheless think that the present state of affairs could entail interesting developments. Although I do not believe that the MBA curriculum will be substantially impacted by the ongoing crisis. A review of the importance given to ethics and corporate governance; a re-examination of the interfaces between accounting and finance; and a re-evaluation of what is taught in risk management, are certainly going to take place. In fact, this is taking place right now. Many schools have already introduced new courses on financial crises (we have), with some schools considering reintroducing a speck of economic history to give future managers a better perspective, etc.

Concerning the MBA, I think that the structure and the curriculum of the program will be marginally impacted.

“We don't know what the next wave of innovations will be made of, nor do we know if institutions and organizational routines will adjust fast enough to prevent other crises.”

In fact, many of the relevant issues, in terms of changes, have been debated in business schools for some time. After all, there is only so much you can do in one or two years in a general management program. And there will always be a need to cover the fundamentals of accounting, marketing, finance, strategy, and so on. There is certainly room to stress integrative thinking, the importance of a global perspective and the development of responsible leaders. But the balancing act has its limits. Those are the limits of the program itself.

Other more consequential changes inspired by the current crisis could affect executive education and the development of specialized masters programs. Even undergraduate programs might be impacted. Essentially, I conjecture that the complexity of financial markets, coupled with the dynamics of globalization and the demands for socially and environmentally responsible behavior will, together, lead to a number of interesting new programs and specializations at both the undergraduate and graduate levels.

To conclude, if pressed to make a prediction, I would speculate that most of the issues surfacing because of the current economic crisis have been largely anticipated by business schools, which is a comforting thought. I would also expect the MBA to be marginally impacted. And, finally, I surmise that the real innovations might pop up in other areas: in the development of specialized masters programs or of “advanced executive education programs” on the one hand, and in innovative multidisciplinary collaborations on the other.

Business schools as institutions and institution builders

Finally, I wish to advance a third proposition, one that goes to the heart of the crisis. It concerns the window of opportunity that this crisis is opening up for business schools to contribute to the development of better organizations and institutions, and thus to serve society for the greater good.

There are two strands to this argument. The first one concerns the contribution that research and teaching can make to remedy a number of deficiencies in recent market innovations and to influence the reshaping of the regulatory framework that will follow the crisis. The second one concerns trust, which is fundamental to both the functioning of markets and the efficient development of cooperation within organizations. How can business schools place the development of trust, the central importance of fairness, and the role of leadership in fostering trust at the core of their activities?

Let me briefly consider the first issue. Our economies need innovations. Our financial systems need innovations. Yet, as is evident, those innovations sometimes outpace the rate at which the institutions and the players can adjust in a socially desirable way.

This is but one explanation for what happened in the financial markets over the last two years. The rapid development of new financial products (mainly “structured finance”) including advanced and complex contracts used to refinance and hedge activities, such as collateral debt obligations (CDOs) and special investment vehicles (SIVs), is probably one of the main causes of the recent debacle in financial markets.

Today, experts in the field, academics, and regulators point to a number of defects in the market for these sophisticated products. Inadequate risk management by banks, moral hazard issues, the existence of poor standards, the lack of market transparency, and inadequate regulation by government are frequently cited as being at the origins of the current mess.

It is very doubtful that business schools could significantly curb the temptations of (some) individual agents or investors to realize enormous gains at the expense of the well-being of their organizations and of society (even if it is immoral or even illegal). Business schools can, however, contribute to the design of better financial contracts, better rating methodologies, better pricing techniques and better regulations.

In fact, business school experts in finance, economics, statistics, accounting, law and

regulation, governance, strategy, and so forth, are in a unique position to serve society if they can combine efforts. They could significantly improve the efficiency and transparency of financial markets. Actually, it is our social mission to do so and we should even be blamed if we do not offer a neutral, critical, enlightened environment to assess those innovations. This is one contribution that universities are expected to make to society.

This, in turn, requires more in-depth research into these areas; it supposes the encouragement of innovative, cross-disciplinary collaborations between experts from different fields and a genuine concern for the efficient transfer of the knowledge to society, to governments and to organizations. Notice the last point: advances in research ought to be transferred to the public domain if they are to influence policies. If business schools meet that challenge, they will make a very important contribution socially.

Finally, let me address the trust issue, which is truly fundamental. Every time a crisis such as the current one happens, some of the social capital of society, in Coleman's sense, is destroyed. The instability of the markets, the destruction of wealth, the unfortunate but all too real cases of fraud, abuse and perceived unfairness in organizations seriously undermine the morale of employees, shareholders and investors and their confidence in markets and business firms. And confidence in business schools is eroded too, not surprisingly.

Hence, one major task that confronts business schools today consists in weaving the building of trust into business education. This essay cannot identify what innovations business schools should introduce to do so. My contention is simply that business schools are singularly well positioned to introduce these innovations.

Advances in sociology, anthropology, psychology, socio-economics, experimental economics and philosophy offer interesting avenues for research and teaching on the interfaces between cooperation, fairness and trust.

Business is embedded in society. Business education should stress this embedment and its consequences for managers. At our school, for instance, all our specialized masters programs have one compulsory course in common; it is team-taught by professors in economics, management and sociology and it is concerned with the factors that promote cooperation in organizations and society.

Conclusion

I have argued that business schools are important institutions in knowledge-based economies. As such, they share responsibility in the development of the current financial and economic crisis.

Yet, I have suggested that cycles, booms and busts are inherent to the functioning of capitalism and that business schools, fundamentally, are not responsible for the current crisis. Again, the fundamental factors that precipitated this financial crisis are now fairly well identified and point towards inadequate regulation, market inefficiency (e.g. the lack of transparency of rating and pricing techniques) and governance issues. I have also argued that it is unrealistic to expect business schools to be able to curb self-serving, antisocial behavior. However, I have stressed the important role that business school teaching, research and knowledge transfer can have on the design of better institutions.

This is why I have contended that business schools today find themselves in a position to make a very significant and very socially valuable contribution to society, inasmuch as they can improve the efficiency of markets and the confidence of the public in markets and organizations. □

The Economic Meltdown and the Future of Business Schools

Richard A. Cosier: Dean and Leeds Professor of Management, The Krannert Graduate School of Management, Purdue University



So how did we get into this global economic crisis? Until some time in late 2007 or early 2008 things were seemingly going along quite well. The vast majority of the world's major economies were expanding and many people were enjoying their improved prosperity. Financial markets were reaching new high levels and many graduate business students around the world dreamed of lucrative investment banker positions after graduation. The growth cycle seemed well established and for some, things looked too good to be true – in hindsight these people were correct.

Economies around the world, in fact, had overheated. In the United States home prices had spiralled upward at dizzying speeds. Individual and corporate debts were at all time highs. Leverage was the means for achieving growth and enjoying the benefits of the growing economy. In many business schools, students were flocking to Finance with hopes of participating in the explosion of wealth enjoyed by some of their recently graduated role models who were making six and seven figure incomes from the creation and sales of "exotic" financial instruments.

We are now well aware that there were underlying problems which caused the story to take an ugly turn. Most of the world is now experiencing the worst economic period since the late 1920s and 1930s Great Depression. The current situation is being called a severe global recession but to many it feels like a depression, especially to those who are unemployed or have seen their retirement savings evaporate.

Predictably, people are looking for the culprits who caused this massive economic meltdown. Some are pointing fingers at the business schools and MBA programs around the world. I, however, am not one of those placing blame on business schools. In my opinion there are two fundamental causes of the economic woes we are experiencing.

First, I suggest that widespread personal greed was a major cause of the economic turmoil. Individuals lost track of the common good and longer term concerns and attempted to maximize short term personal gain. Investment bankers eagerly counted their windfall profits from trading in sub-prime financial products and other derivatives. Buyers felt they were assuming little risk in purchasing these products as they were able to purchase insurance on the various options. Using 20-20 hindsight these sub-prime and other "toxic" derivatives were highly risky and involved loans made to unqualified borrowers.

This brings us to the second cause of the economic crisis – excessive leverage. Credit and loans were too easy to obtain. The most obvious sector that was over-leveraged was real estate, especially in parts of the United States like California, Arizona and Florida. Borrowers with little or no tangible assets were being given 80-100 per cent loans with "hidden" escalating interest rates. The idea was that if these borrowers defaulted, the rising real estate values would eliminate the risk to the lender. Sounds like the house of cards situation where the rosy picture was very misleading – risk was much higher than many apparently believed.

In the United States, the Federal Reserve policies didn't help matters by keeping interest rates very low between 2002 and 2004. Again, with the intention of keeping credit flowing, the economy was heading for a meltdown.

If personal greed and excessive leverage were at the bottom of this economic decline, what role did business schools play in the debacle? Critics claim that business schools must have ignored educating students on topics such as ethics, social responsibility and integrity. They imply that Finance courses taught students how to create "innovative" financial instruments and then to use these tools to maximize personal gain. I beg to differ. In my experience of visiting and reviewing programs of business schools around the world, the vast majority have courses, lectures and distributed ethics and social responsibility content throughout the curriculum. Certainly there is a debate amongst some faculty members about the role of agency theory and maximizing the stakeholders' value when considering the social responsibilities of businesses around the world. And most business schools teach about various financial instruments and derivatives. But that is what academic freedom is all about! Let's hope that we never resort to censorship in the classroom when teaching about financial instruments.

People make decisions based on personal values that are formed throughout their lifetime, and reflect myriad external and innate sources. Business school graduates are not programmed like robots during their education experiences to do evil things. However, if someone decides to use their knowledge for personal gain at the expense of others, they may very well create problems in our society. This is especially a concern when credit and interest rate policies made it "easy" for some to abuse the responsible use of credit and leverage.

The future will see changes in business schools reflecting this historic economic collapse. First of all, there will be a vast amount of research devoted to diagnosing in great detail what happened. My opinions will, and should be subject to empirical investigation for example. Future dissertations will include questions of diagnosis and prognosis. You see I believe that business schools are actually part of the solution, not the problem. Research will help explain and prevent future global economic meltdowns. Secondly, the need to continue and expand coverage of ethics and social responsibility of business in the curricula will be apparent. Students need to be aware of the consequences of their decisions. Having said this, the role of finance and financial tools will continue to play a major role in our curricula as well, as it should. Thirdly, the need to teach business within a global context will become even more acute. Economic impacts are felt around the world whenever a major economy experiences challenges. It is also clear that developing economies need the attention and expertise from business school educators. □

"If personal greed and excessive leverage were at the bottom of this economic decline, what role did business schools play in the debacle?"

The New Revolution in Management Education?

Andrzej K. Kozminski: Rector, Leon Kozminski University



Thomas Jefferson believed that “every generation needs a new revolution”. My generation’s revolution in management education was set in motion in the late 50-ties by the famous Ford & Carnegie Report. It produced a “golden standard” of academic management education, which is still prevailing and looked upon as a model everybody should follow. Has the time come for a new revolution?

Present financial and economic crisis and public outcry against the ways business is being done seem to substantiate a positive answer to this question. Management education gets its share of the blame, and a need for a change follows. The key question is, however, whether the changes will be “cosmetic” or “revolutionary”? In order to address this question one has to take into consideration the important changes that appeared in the management education environment and in the markets for its services a long time before the present crisis. Let me name just a few:

- Firstly, management education, which was originally conceived as an elite educational track dedicated exclusively to business (and more precisely to big corporations), found itself confronted with an ever growing demand from millions of individuals seduced by the promise of a better future, or forced into entrepreneurship and management by evolution of the markets. Medical doctors, art historians, cooks, farmers and representatives of countless other professions, trades or positions are becoming entrepreneurs and managers almost without noticing.
- Secondly, this unprecedented massification of demand is coupled with excessive market segmentation and the proliferation of highly specific, or even “exotic”, market niches such as show biz management, sports and arts management, wine industry management, hospitality management, public management, law enforcement management etc.
- Thirdly, since the 70-ties management education is yielding a global reach, penetrating Western Europe, and subsequently Latin America, Asia, Middle East, Africa and the post-communist world. Business schools and management education institutions are mushrooming not only in affluent areas, equipped with advanced academic institutions of international repute, but also in poor, developing countries, quite often under corrupt and authoritarian regimes.
- Also, delivery costs of management education are skyrocketing in the most advanced top notch business schools in the US and Western Europe. Institutions located in less affluent parts of the world can not keep pace. Because of the cost factor, the management education map of the world can be divided into: core, close periphery, and distant periphery.

As a result of the evolution of the markets, several important changes are already taking place in the management education industry worldwide. Industry landscape is becoming increasingly diversified. Along with the classical American model of a university business school, several types of stand alone institutions emerged. Some of them are not for profit, some commercial. The management development market is successfully penetrated by for-profit companies offering more flexibility and customer intimacy than traditional

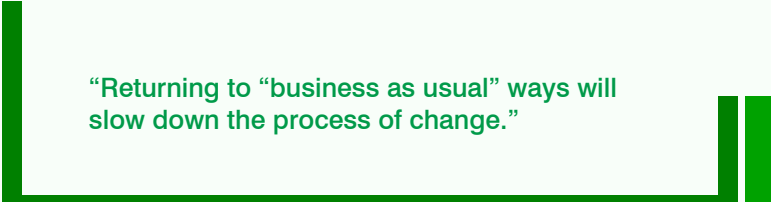
business schools. Some of the stand alone institutions (mostly European) are research driven; others limit their intellectual ambitions to applied research, and position themselves on the market either as high quality or low cost providers. Product and price differentiation is rapidly gaining importance in management education. Almost none of the institutions are capable of serving all the needs of the market. This can be only accomplished through resource sharing, networks, alliances, mergers and acquisitions. Differentiation and fragmentation of the industry is coupled with a strong consolidation drive and increasingly important cooperation ties. After 20 years or so, the dominating American model of the business school is being challenged in different parts of the world, partially because of the simple fact that others can not afford it.

One could ask a question whether a series of changes already taking place should and could be accelerated and radicalized as a result of the present crisis?. This question applies in particular to US management education, where the “golden standard” was achieved several decades ago, and basically unchanged, remains the most influential worldwide. Nevertheless several alternatives appear. I am impressed by Howard Gardner’s idea of “the five minds for the future” (Gardner 2008) to be followed by educational systems in order to enable young people to cope with the challenges of the world for their own success and for the common good as well. Gardner identifies five minds to be developed: the disciplined mind, the synthesizing mind, the creating mind, the respectful mind and the ethical mind. Let us examine some ideas enabling business schools to form “five minds for the future”

Reputable, accredited business schools are certainly good at forming disciplined minds capable of scientific thinking, “state of the art” analysis, and constantly developing skills. Quantitative courses such as business statistics, operations management, financial analysis, managerial accounting etc. are particularly instrumental in forming disciplined, rigorous minds. Proliferation of these analytical skills into lower ranking institutions seems an important task of licensing, accreditation and ranking procedures.

The synthesizing mind seems difficult to develop in the academic environment dominated by functional disciplinary silos. Integrative capstone courses such as strategy or business policy are not powerful enough to provide students with interdisciplinary multi-perspectives, particularly since they become narrowly specialized silos themselves. What is missing the most are the courses combining “hard” and “soft”, “economic” and “social”, “managerial” and “institutional” components. Political economy, economic sociology, behavioral economics, sustainable business management, legal environment of business are examples of such courses to be developed and integrated (or in some cases re-integrated) into curriculum. Management education visibly lacks theory. Business schools’ students are allergic to theory and demand “practicality”. It makes integration and synthesis difficult to impose. There is also the other side of the coin: weakness in theory in such fundamental areas as economics and management. The present economic and financial crisis clearly demonstrated weaknesses and “big holes” in such noble academic disciplines as macroeconomics and financial economics. Management theorists have abandoned the idea of “general theory of management” (epitomized by such names as: Herbert Simon and James March) a long time ago: in the early 70’s. A lack of theory makes synthesis more difficult. Management education badly needs theoretical depth. Intellectual powerhouses, such as some of the best business schools, are well positioned to fill the gap, and to develop new theories capable of supplementing narrow subjects and practical skills. Management of the future will certainly be more intellectual and will require broader horizons.

The formation of creative minds means the demonstrating a capability to “think outside the box”, as well as to courage experimenting with new ideas, projects and products. Creativity should be considered the next stage in intellectual and mental development: after mastering discipline and synthesis. Certainly not everybody can achieve it. Some people are naturally more creative than others, but education can certainly enhance or inhibit creativity.



“Returning to “business as usual” ways will slow down the process of change.”

In the business world and in management in general, creativity comes very close to entrepreneurship. It is demonstrated by the ability to come up with new, unknown and untested combinations of resources, products, markets and partners. Development of such an ability can be achieved through studying entrepreneurial successes of the past, but also through practical involvement in entrepreneurial ventures: "learning by doing" consulting projects dedicated to helping entrepreneurs. In business schools curricula, entrepreneurship too often equals "small business". In my opinion much more attention should be devoted to intellectual entrepreneurship and corporate intrapreneurship.

A respectful mind is the opposite to the arrogance and superiority complexes top business schools graduates are often accused of having. Respect shown to others and openness to others neither falls into the category of knowledge, nor skills. It is a dynamic capability enabling to work and to succeed in complex multicultural social setups. Such capability is hard to acquire in the classroom. Teamwork exercises and in depth studies of other cultures can help to develop respectful mindsets. How can we expect respect from someone who never cared to speak any other language than his own mother tongue, and who knows nothing about the history and culture of other nations? Business schools curricula should include such topics combined with a "one semester abroad" prerequisite. Such study abroad exercise should preferably take place in some less developed country, where more painful experiences of mankind can be observed and felt. Respect is likely to breed compassion and empathy. This helps to understand other peoples' actions and motivations.

Formation of the ethical mind should certainly go beyond lip service paid to "business ethics" and the occasional workshops devoted to the subject. The relationship between business ethics, corporate governance, behavior of the firm and business success deserves serious empirical investigation and coursework. In order to observe a moral code one has to understand and to accept its role in the society, otherwise "codes" or "pledges" for graduating students will be treated cynically as an empty ritual. On the practical side voluntary work and community service can certainly help. But can we impose it on our students?

Taken seriously by management educators a "five minds imperative" would involve a radical redesign of the business schools' curricula. The main objective for such a revamp of the program is to broaden the scope of knowledge, to provide more theoretical depth and to encourage "cross-silos" connectivity in the students' minds. New modes of delivery should also be geared to develop capabilities. For example, advanced management training should enhance development of artistic and spiritual forms of sensitivity and expression (Hatch, Kostera, Kozminski 2005). I happen to believe that well educated, sophisticated and open minded people with broad intellectual horizons and high moral standards will make better managers than narrow technocrats and "laptop laborers". Such a curriculum redesign would inevitably lead towards longer training. In order to be accepted by the market, it could be combined with full time employment and organized in manageable modules. In my opinion, part time programs should not be looked upon as a lower quality product. They can perfectly fit the specificity of managerial jobs.

The American model of a rigorously academic and focused business school is gradually becoming obsolete. The pendulum is swinging towards a much more flexible, business-like model, which emerged in Europe in the 80's and the 90's, and a broader, interdisciplinary tuition. The top US universities, however, will most likely maintain their leading position in academic research, faculty development and Ph.D. programs.

The European model of management education remains far from being fully mature. It is heterogeneous, eclectic and even chaotic. These characteristics result from the lacking recognition of management as a "legitimate" field of scientific research by academic community in Europe, and the lack of "blanket" private funding. European management education institutions are predominantly market driven: they have to follow the market in order to survive. This market pressure led to the creation of some very fine stand alone business schools, much closer to business than American institutions. Peter Lorange (2002) shows that such a model of business school can co-exist with the applied research

culture. Fundamental research, however, has to be outsourced from “classical” universities such as those belonging to the American Ivy League.

I visualize my model of the future business school using the metaphor of an airline hub with large number of incoming and outgoing flights. Outgoing flights symbolize different categories of educational and intellectual services provided by a business school. Incoming flights represent intellectual, human and material inputs enabling business school’s operation. Two important conclusions can be drawn from this picture. First, the scope of activities in a modern business school is highly heterogeneous and has to change constantly with the market. Second, the resource base to support this is so large and diversified that almost nobody can rely exclusively on “own” resources. Activities going on inside the hub are geared toward developing a limited range of specific resources, harmonizing incoming and outgoing flights, as well as increasing the volume of the traffic, and shaping its structure in accordance with the business school’s strategy.

I see a considerable degree of academic and business autonomy as a prerequisite for the development of institutions of higher learning in management. This is particularly important for business schools being parts of large and highly bureaucratized university systems. Autonomy results directly from the predominantly market driven character of business schools’ activities, and its dependence upon external, outsourced resources. Autonomy is also needed to maintain a boundaryless and flexible character of the school’s operations. Both academic and business leadership is needed. It has to assure both the accumulation of academic potential, and a business dimension, including expert management of corporate, client and alumni relations, tapping on multiple sources of funding (tuition, government subsidies, corporate and charitable donations etc.), building and promoting powerful brand. The globalization of business activities inevitably pushes business schools into internal and external internationalization. A global management education system can be perceived as a network of interrelated hubs. Networking is becoming the name of the game. The most powerful nodes in the net are likely to assist knowledge creation and development, program innovation and faculty development. The future belongs to “full service”, “fully-fledged” institutions, commanding considerable personal resources, swiftly outsourcing the others, offering a broad portfolio of services and penetrating a variety of markets under the umbrella of a powerful brand name. Are they likely to “colonize” the other hubs? Comparing with other intellectual services, such as consulting, legal services or auditing, can we imagine a business school employing 10,000 faculty in 35 countries?

How realistic is the perspective of the “next revolution in management education”? It can only result from strong market pressure, more likely to mount in the situation of the present economic and financial crisis. Returning to “business as usual” ways will slow down the process of change, with “creeping credentialism” (as Peter Drucker calls it) prevailing, and the markets readily accepting credentials offered by business schools as they are today. Traditional academic culture (including mechanism of academic promotions) and the heritage of faculty centred and faculty (democratically) run academic institutions seem to be another powerful factor blocking the reform. Accreditation and ranking mechanisms petrifying existing standards also make “revolution” less likely to happen. □

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Management Education: The Best Is Yet To Come

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It was the best of times, it was the worst of times (...) it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us..." These familiar lines of Charles Dickens' "A Tale of Two Cities", one of the most celebrated literary openings ever written, seem very applicable today, as they were to the French Revolution – the context of the novel – and even to Dickens' own times.

Supposedly every century brings a revolution and we are, more or less perceptibly, living ours: a major societal shift, where the economic crisis, along with other factors like developments in technologies, the changes in the profile and values of young generations and the conflicting forces of globalisation and local diversity, are shaping a new model of society. In the midst of this forceful maelstrom, many managers feel uneasy and anxious. At the same time, the current circumstances provide an arena where true leadership is tested and where managers can identify new opportunities or reinvent their existing businesses. It is time for the survival of the fittest, in Darwinian terms, or for the birth of a new species that better adapt to this new environment. Times of crisis provide the breeding ground for entrepreneurs and innovators and many major companies, like Google, were created in adverse circumstances. Again paraphrasing Dickens, the worst of times provides the best of times too.

Interestingly, many articles on the current crisis have focused more on adjudicating responsibilities than on providing clear diagnosis of what happened or prognosis of how to overcome this downturn. Many business stakeholders, including managers, bankers, regulators, rating agencies, academics, gurus, financial journalists and even customers of some financial products were myopic or bewitched by a tantalising vision of a continuously growing economy, being careless in assessing risk and immature in ascertaining the complex consequences of financial decisions in a global economy. Some formerly respected opinion makers have turned from heroes to villains. Moreover, some criminal cases or unprofessional practices have been uncovered like trash on the beach when the tide goes out. Indeed, trust, the cornerstone of finance, has been affected severely and it will take time and big efforts to restore it.

In this context, business schools' members should feel co-responsible for the current financial mess along the other major business stakeholders. However, since business schools have characteristically played the role of icebreakers in higher education and being forward looking, it is more important that we identify and implement new avenues that may bring business practices to a new and more sustainable plateau.

At the same time, I do not believe that we promoted at our schools a narrow approach to management or a restricted concept of managerial duties. Moreover, the "greed is good" maxim, cultivated by some in the 80's and leading to the junk bonds crisis, has not been preached at any business school of which I know. On the contrary, the last decade has witnessed a significant growth in corporate social responsibility (CSR), which embeds many MBA courses and multiple initiatives at major corporations. However, it seems that these efforts have not been enough. Either the assimilation or implementation of CSR was superficial, or the directors who mismanaged their companies did not apply the golden rules taught at business schools, or the system was already perverted and impossible to revert. On the other hand, teaching business ethics and deontology does not immunize

students and graduates from engaging in unethical behaviour. This is something we have to live with, like in other clinical professions such as medicine or law.

We live in a brave new world where business schools are challenged to prepare, not just good financial engineers or accomplished management technicians, but also global citizens. My purpose here is therefore to identify a number of initiatives that business schools' deans, directors and faculty can implement in order to confront future crisis and better serve their social mission:

1. Cultivate constructive interaction with different management stakeholders, particularly governments, since they will become pivotal players in the economy as regulators, shareholders and investors in the coming years. Given the increasing protagonism of governments in the economy today and the foreseeable structural and cultural changes of the management landscape, business schools must adjust and explore a new paradigm for their relations between business and governments. Entities such as public-private partnerships may well offer opportunities for research, teaching and consultancy and potentially suitable careers for MBA graduates.

Historically, American and European business schools have put a different emphasis on stakeholders in strategy formulation and decision-making. Two decades ago, references to stakeholders in the US were discredited as borderline socialist; the only relevant constituency for managers was shareholders. Conversely, European business schools have evolved out of a very different management culture, open to a wider array of stakeholder groups.

For example, the European business environment has been characteristically regulated and governments –at EU, national or even regional levels- have a decisive presence. This has often been as major shareholders in big companies, but also by awarding licenses, fixing tariffs, pre-emptively approving mergers or acquisitions or keeping various other prerogatives over companies' decisions. For example, in Germany the law determines that unions should have a representative in public companies' boards. In France recently there has been increasing economic interventionism, in the land where Louis XIV's finance minister, invented it under the term *dirigisme*, also used in English.

There are some advantages for business schools in this new world of a resurrected "visible hand". Firstly, civil servants, public administrators and politicians could become an increasingly relevant applicant pool for degree and custom programmes delivered by business schools. Given the participation of governments in business through bail outs and regulation, government workers such as civil servants will need to update their knowledge and skills to run and understand these new functions effectively.

One area of big potential development is public entrepreneurship - that is, preparing public officers with the mindset of creating value for citizens (considered as customers). Equipping public servants with an entrepreneurial, innovative mindset should help them to identify and create opportunities, taking a more proactive approach rather than just administering public resources. In fact, most management ideas and techniques can be translated into government practices, something that explains the growth of MPA (Masters in Public Administration) programmes in recent years across Europe.

Furthermore, CEOs and managers should realise the increasing importance of nurturing creative relations with governments and other stakeholders in general. My experience at IE Business School, for example, shows that CEOs at leading Spanish corporations dedicate more than 60 per cent of their time to dealing with their company stakeholders - governments, media and opinion makers, unions, customer associations, NGOs and professional networks, to mention but a few. The spheres of the private and the public are blurred and the profile of managers is becoming closer to that of politicians.

“The current circumstances provide an arena where true leadership is tested and where managers can identify new opportunities or reinvent their existing businesses.”

Anticipating this new scenario, different frameworks are being researched by business scholars to look at how to manage a broader array of stakeholders and create competitive advantage through these relationships. One such area of research is described as non-market strategies¹. This calls for corporations to look beyond the traditional confines of the market (competitors, price etc) and find opportunities through interaction with groups such as government, regulators, NGOs, the media and reshape markets in their favour. A number of corporations do this well, but many others are going to have to improve in this area very quickly.

Yet business schools must not only research and teach these new approaches but practice them as well, as the management education sector faces greater scrutiny from a wider group of stakeholders than at any time in its history. Here, the case of successful joint programmes between different schools (e.g., Business, Law, Communication, and Political Science) at some American universities may serve as a valuable reference for European business schools, which have historically operated as independent institutions or, if belonging to universities, have maintained their autonomy and remained detached from other schools.

2. Realign academic research with the needs of the real business world. Since the activities of business schools focus not on a speculative but a clinical subject –i.e., management-, a substantial proportion of academic research should deal with real business problems, jointly with top managers. Investment banks created in the past years true in-house universities that developed huge research on markets and companies but lacked the soundness and independence of academic research. On the other hand, academics have sometimes neglected the practical relevance of their research.

Some years ago I was commissioned by EQUIS (European Quality Improvement System) management to develop a set of standards that could be applied when evaluating business schools regarding their research activity. One of the first things I realised at the beginning of this project was that research is a contested concept, i.e., a concept with different conceptions or meanings with some conflicting. In order to avoid the semantic trap, we decided to give up the controversial concept “research” and stipulate a new one. RDI, (Research, Development and Innovation), is a more ample concept that leaves room for many different forms of production and diffusion of knowledge, from articles in academic journals to teaching materials and white books on industries. This new category allowed for different knowledge contributions, academic and clinical, in line with the social mission of business schools to provide responses to real management problems. Traditionally, the test used to define *research* has been the pedigree of the channel used in its diffusion. According to this taxonomy, basic or original research is published in refereed academic journals whereas developmental or applied knowledge is distributed through other professional publications. However, the reality is more complex today and management knowledge is originated in diverse places and distributed through multifarious channels.

Indeed, universities cannot claim to be the only reservoir of management knowledge (nor of many other disciplines). Most of us believe that business schools should act as bridges between Academia and the real business world. Consulting companies, investment banks and publishing houses are sometimes the source of valuable, original knowledge and business schools can promote an active dialogue with these and other institutions to further articulate multiple ideas to higher grounds. By becoming knowledge “hubs”, instead of reservoirs, business schools may better contribute to the advance of management theory and practice. Furthermore, the actual use of RDI in the assessment of business schools by the different accreditation agencies, which may encounter the eventual opposition of some, will not only allow for a correct evaluation of schools according to their missions, but also strengthen the closeness between our contribution to knowledge and real management and societal needs.

¹ For example, Allen, David B.; Bach, David: “Beyond the Market: What Every CEO Needs to Know About Non-market Strategy”; forthcoming paper; featured in *The Economic Times of India*, Corporate Dossier, 24 July 2009. (<http://economictimes.indiatimes.com/Features/Corporate-Dossier/Non-market-strategies-making-a-comeback-in-West/articleshow/4814061.cms>)

3. Develop a New Generation of Faculty. When I ask my colleagues about the main challenges our schools face today, many point to the attraction, development and retention of good faculty as one of the most serious. Indeed, today schools compete to attract those scholars who combine the best credentials in research with solid teaching skills and who also interface with top management of respected companies. I have sometimes referred to these well-rounded academics as “Kangaroos” as opposed to just “Gurus”, because the former are able to jump from research to class to consultancy, performing excellently in all three activities. Let me further elaborate on this multifaceted type of academic by opposing two models of faculty, which I will name “Humboldtian Faculty” and “Mavens”.

“Humboldtian Faculty” was moulded at the eponymous institution in Berlin in the early Nineteenth Century and has inspired the model of academia prevalent at all Western universities in the past two hundred years. Wilhelm Von Humboldt believed that, in order to make a significant leap in the sciences and in the humanities, the career of academics should become specialised - until then, university professors could teach different disciplines and lack subject affiliation- and universities should be organised in schools and departments. According to the Humboldtian model, faculty are the masters of the learning process, the guardians of knowledge and hold a certain academic pedigree: for example, finance professors should have PhDs in that field, write in financial journals, belong to finance networks and deal (sometimes only) with other professors of finance.

The Humboldtian Faculty model has rendered many positive results. Knowledge has experienced an unprecedented progress across the board. At the same time, a significant number of education analysts and scholars have warned about some undesirable effects of the model such as the “silos syndrome” derived from an extreme specialisation and lack of integration of academics, in both teachings and research at large.

In addition, the demands from stakeholders, the formidable impact of technologies in the learning process and the multifarious origination and distribution of knowledge (abovementioned) are transforming the role and the ideal profile of scholars. I believe that the concept of “Maven”, widely popularised by Malcolm Gladwellⁱⁱ, can adequately illustrate what is expected from business schools’ professors today. Mavens are active gatherers of new trends, ideas and data and have the key skill of identifying which of them may transform the world. Furthermore, they exercise the necessary influence to have these ideas diffused through other major opinion makers in society. As compared to Humboldtian Faculty, Mavens often have mixed backgrounds, a circumstance that may help business schools in their search for scarce talented scholars outside the management reserve. Conversely with their traditional fellows, Mavens act as orchestrators of the learning process and can be featured as catalysts of knowledge distribution, rather than the sole authoritative source of truth.

Raising this new generation of Maven scholars requires initiatives in several directions, including investing in the permanent preparation of our Faculty to develop their research and docent skills, particularly through the channels provided by new technologies. Implementing these efforts will probably encounter the excellent reaction of scholars, at any stage of their professional lives, if the necessary resources and incentives are brought along. My experience is that it also requires some degree of passion, from academics and educational managers, for both the development and the transmission of knowledge. Both roles are valuable by themselves and inevitably interdependent. Indeed, research and teaching are both consubstantial to academic careers and when I meet a scholar who disregards or abandons any of the two I think I am in front of a lame academic.

It is sometimes forgotten that teaching and the interaction with students provide a unique opportunity to test and refine new management ideas. It can also be one of the most self-fulfilling activities practised by academics. As far as management education is concerned, the direct interface with managers is particularly important as their behaviour and

ⁱⁱ Gladwell, Malcolm (2000): *The Tipping Point: How Little Things Can Make a Big Difference*. New York, N.Y.: Little, Brown & Co., p. 19.

experiences are actually the object of management research. Is there really any other way to develop business research than by dealing with the major business stakeholders? The published experience of respected educators, like Peter Lorangeⁱⁱⁱ, can provide fruitful arguments in favour of this approach.

If both research and teaching are two essential, fulfilling activities of academic careers, why do PhDs in management programmes at most business schools focus mainly – if not solely – on the development of research skills? In fact, the reduction of PhD programmes to develop researchers, instead of well-rounded scholars, has been criticised in different reports both in the US as well as in Europe^{iv}. If institutions do not react and solve this problem, I hope that PhD students will overcome their estrangement and demand a complete education.

4. Revisit the purpose and contents of management education from the wider perspective of the Humanities. The challenge is deep: reinventing capitalism. The revision of programmes should be guided by the ideals of the managers and entrepreneurs we aim to develop.

Again, different stakeholder groups, including faculty, alumni and recruiters should engage in this debate which has traditionally been held behind closed doors. Discussions should cover basic suppositions, addressing the major responsibilities of managers. The new approaches of Positive Psychology, prompted under the auspices of Martin Seligman^v, among others, are very promising here. Education is, after all, the process of learning the strengths and virtues that enable individuals and communities to thrive.

At IE Business School, for example, we have introduced a number of Humanities' courses as core part of the MBA curriculum. We believe that by learning the history of different civilisations or Modern Art we prepare well-rounded graduates, illustrated managers who may behave also as global citizens.

In finalising this article, I consider it important to dismiss any sense of elitism or arrogance among our management students that, being real or not, some analysts of business schools have perceived in the past. Management, if performed with personal modesty and a sense of service to the community, can be one of the noblest professions. It creates growth, wealth and development in society, provides jobs, fosters innovation and improves living conditions. Good management is one of the best antidotes to most of the world's illnesses as it promotes convergence and understanding among civilisations. We need true leaders, good managers; and good management is synonymous to ethical management, nothing more but nothing less. □

“If both research and teaching are two essential, fulfilling activities of academic careers, why do PhDs in management programmes at most business schools focus mainly – if not solely – on the development of research skills?”

ⁱⁱⁱ Lorange, Peter (2008) *Thought Leadership Meets Business: How Business Schools can become more succesful* Cambridge: Cambridge University Press.

^{iv} See The Woodrow Wilson National Fellowship Foundation (2005): “The Responsive PhD: Innovations in Us Doctoral Education” (http://www.woodrow.org/images/pdf/resphd/ResponsivePhD_overview.pdf). On the other side of the Atlantic, *Times Higher Education* (27 May 2005) reported a communiqué of the European Ministers of Education meeting in Bergen: “Efforts to introduce structural change and improve the quality of teaching should not detract from the effort to strengthen research and innovation”.

^v Peterson, Christopher; Seligman, Martin E. P. (2004). “Character strengths and virtues: A handbook and classification”. Oxford: Oxford University Press.

The Global Fraud Crisis: Its Implications for an Asian Business School

Gasinee Witoonchart: Dean, Thammasat Business School, Thammasat University & Fredric William Swierczek: Director, DPB & IMBA, Thammasat Business School, Thammasat University



“**T**here are some frauds so well conducted that it would be stupidity not to be deceived by them” – Charles Calab Colton, 1780 – 1832.

Business Schools worldwide are rushing to fix the damage created by the Global Financial crisis. Curriculum and courses are being written, post mortems conducted, and MBA oaths or pledges similar to the Hippocratic oath are being sworn by new MBA graduates. These oaths would be better called the Hypocritical oaths, and the financial crisis better called the Global Fraud crisis.

From the viewpoint of Asia, specifically Bangkok which was the ground zero for the Asian Financial crisis of 1997, the worldwide reaction to the Global financial crisis as if it were a unique or unexpected event demonstrates a naiveté or near sightedness which tends to be the perspective of the global finance professionals. Throughout recent history bubble crises have developed continuously and consistently on a cyclical basis. The causes tend to be clear with analysis in hindsight and the solutions predictable in the form of international financial institution or national government bailouts or both. A striking element of this worldwide financial contagion is fraud. Fraud is defined as tricky, deception or deceit. It is synonymous with duplicity, scams, and swindle. This fraud is not just the Madoff type of explicit fraud, but the implicit and delusional fraud represented by the false value of financial instruments, the false assumptions underlying the models used to predict financial value and, performance and false rating of the instruments which confirmed a value to the investor which in fact had no basis in reality and were negative rather than positive. Fraud is the determining character of the Global Financial crisis.

Failure to understand the extensive and intensive consequences of this multi-dimensional fraud is like trying to treat Swine Flu with aspirin – the consequences will be worst in the future because Business Schools, particularly in Asia, will not have learned the important lessons based on the root symptoms. A case study, no matter how insightful, or an oath, no matter how committed the MBA who takes it is, will not solve the problems. Solutions without this understanding will be no more effective than the Post-Enron initiatives like Sarbanes Oxley or the risk management provisions of Base II.

Business schools do not need to do a great deal more to help prevent future Enrons; they need to stop doing a lot of what they currently do. (Ghoshal: 2005:75).

Academic research related to conduct in business and management has had some very significant and negative influences on the practice of management. These influences have been less at the adoption level of a particular theory and more at the incorporation within the world-view of managers of a set of ideas and assumptions that have come to dominate much of management research. More specifically, by propagating ideologically inspired amoral theories, business schools have actively freed their students from any sense of moral responsibility (Ghoshal, 2005: 76).

The Mandala of the Global Fraud Crisis

The Mandala is presented in Figure 1. A Mandala is a Buddhist symbolic description of an integrated view of reality. It shows two types of tensions or contradictions. The first tension is contextual and related to government policy and regulation of the financial sector and

the open market impetus or dynamism. The second tension is between the stakeholders including investors, employees, customers, retirees, the community and the environment in terms of global climate change and carbon emissions and the executives and financial professionals in corporations who are charged with maximizing shareholder value.

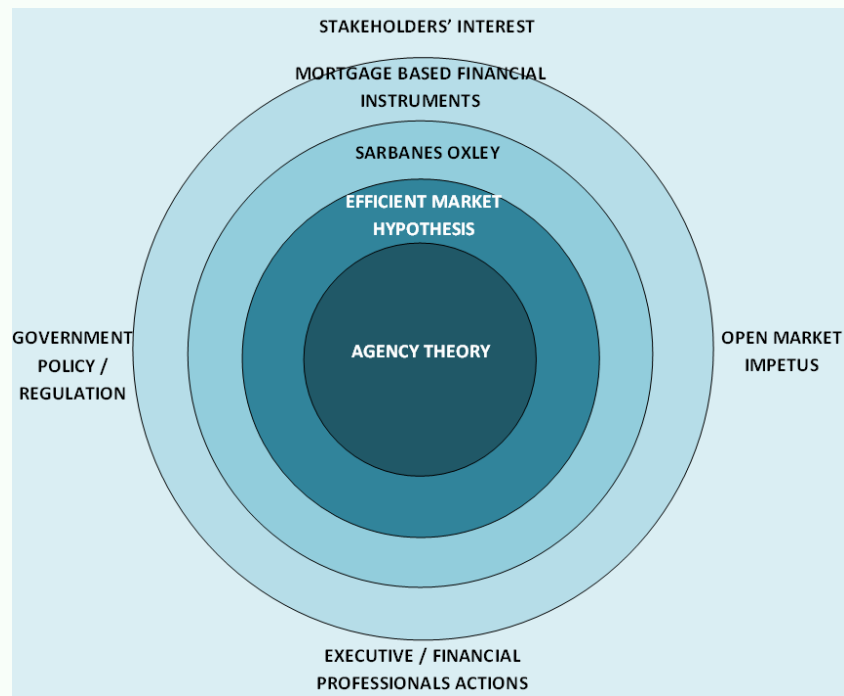


Figure 1 The Mandala of the Global “Fraud” Crisis

Beginning with the executive and financial professionals: how was it possible to destroy billions of dollars in value? It begins with the reliance on mortgage-based instruments in which financial feasibility was based on consumer debt at a period of time when consumer debt was at its highest in history.

These instruments were bundled, rated and used for capital requirements. They were included in sophisticated financial models to predict future value and minimize risk. Underlying all of this is the fraud that consumers could pay the obligation which they could not. Any basic analysis of their financial viability would have shown this.

The next level of fraud relates to the guarantee that regulatory requirements like Sarbanes Oakley would prevent the abuse of financial responsibility characteristic of the Enron Syndrome. If the regulatory approach was effective, the financial crisis should have been prevented or minimized. Oversight should have minimized risk. The fact that it didn't shows that institutional approaches will always be subject to human initiative and ingenuity. Enforcement will always be limited.

Related to the fraud of asset backed securities, and an institutional and regulatory emphasis, is the fraud of the efficient market hypothesis. This fraud assumes that the market is self-regulating and will correct itself. The appropriate approach is to leave it alone.

The past ten years have dealt a series of blows to Efficient Market theory, the idea that asset prices accurately reflect all available information. In the late 1990s dotcom companies with no profits and barely any earnings were valued in billions of dollars. In 2006 investors massively underestimated the risks in bundling together portfolios of American subprime mortgages (*The Economist*, 2009). Belief in Efficient Market theory made the authorities reluctant to restrain either the dotcom or the housing and credit bubbles (*The Economist*, 2009). An open market stimulates financial innovation and

increases the value of the market for all investors. If the efficient market hypothesis operated, bubble situations would not develop. The market does correct itself but in dramatic financial collapses in a continuing cycle. Faith in the efficient market is indicative of the naive bias of financial management professionals. They should and do know better but they don't act because of the herd mentality.

Finally the basic fraud, the core of all other fraud, is agency theory, in which professionals will work in the best interests of shareholders and, by extension, other stakeholders. Casting shareholders in the role of "principals" who are equivalent to owners or proprietors, and managers as "agents" who are self-centred and are only interested in using company resources to their own advantage is justified simply because, with this assumption, the elegant mathematics of principle agent models can be applied to enormously complex economic, social and moral issues (Ghoshal, 2005: 80).

Agency theory contributes to fraud because financial decisions are based on rewards which in the best case reflect an understanding of the risk involved, and in the worst case reward financial professionals who destroy more value than the institution which they represent actually has. This does not include the overall impact on the real economy: employees who lose their jobs, retirees who lose savings, the disadvantaged who lose programs funded by foundations, or the poor who rely on corporate donations or charity.

Agency theory is based on the assumption of the value-maximizing individual. This individual is unreflective and unconcerned about the wider consequences of their decisions or actions. This assumption supports the fraud multiplier, and it has to be challenged and corrected.

The right way: buddhist principles in business

"Do not believe in anything simply because you have heard it. Do not believe in anything simply because it is spoken and rumored by many. Do not believe in anything simply because it is found written in your religious books. Do not believe in anything merely on the authority of your teachers and elders. Do not believe in traditions because they have been handed down for many generations. But after observation and analysis, when you find that anything agrees with reason and is conducive to the good and benefit of one and all, then accept it and live up to it."

Asian values were discredited after the financial crisis of 1997 as they were not real values based on a system of thought originating in Asia. They were values of convenience more consistent with crony capitalism than with doing right.

Potential correctives originating in the West like Corporate Governance, Social Responsibility, Behavioral Economics or MBA oaths tend to be superficial guides to behavior, but do not change the underlying values of the executive or professional. Following such prescriptions does not require self-reflection but only to follow rules or guidelines without thinking.

In Asia these prescriptions are borrowed and literally alien. Corporations follow SARBOX, Corporate Governance or Social Responsibility because it is a requirement from abroad. They look good on paper, but Asian executives don't necessarily believe these precepts. The alternative is to emphasize values that are consistent with Asian belief systems. In East Asia, Confucian Principles or Taoist Principles are ethical standards which could have significant meaning, but have been submerged by contemporary ideologies.

In Thailand, Buddhism is a contemporary belief system which tends to be ignored in business practice because executives, managers and financial and marketing professionals are typically educated according to Western, usually American, principles. These principles are based on a different context; a set of values which tend to be opposite from Asia (and Thailand specifically), and behaviors which tend to be uncritically accepted as best practice.

This imitation has its benefits but it has more limitations. An emphasis on Buddhist understanding would be an important change, and a more appropriate set of values to guide business practice in Thailand.

The first dimension of Buddhist principles is self reflection and critique. To be a better person, the business executive must understand what they do that is right and wrong. They must focus on doing more right.

In doing right, the second dimension is creating merit on a continuous basis. This means expanding what is right as a person, in business, in society, and in maintaining the natural environment.

The Middle Way is the third dimension of Buddhism which should be emphasized. It represents balance and sustainability rather than excess.

A final dimension is the understanding of cycles, and has a long-term emphasis. This avoids the short-term unreflective actions of short-term selfish executives and professionals.

Buddhist principles are compatible with Western concepts such as Corporate Governance and Social Responsibility and the Triple Bottom Line but the core values are different. The critical difference is self-reflection and critique in a particular socio-cultural context.

Conclusion

Implementing Buddhist principles in Business schools in Thailand requires more than just adding a course or an emphasis to a curriculum. These values need to be embedded in the content, delivery, practice and commitment of every course and for every faculty and student to understand and apply. This is relevant to the Principles of Responsible Management Education of which Thammasat Business School is a member. Another issue is whether Buddhist values are transferable to other contexts. They do not have to be. What is important is that the practices are suitable.

According to the Dalai Lama, the main emphasis of Buddhism is to identify the Right View, the best understanding of how to behave, and to take the Right Actions consistent with that understanding (Dalai Lama & Vanden Muyzenbery, 2008: 18). This understanding relates to:

- Principles and causes
- Objectives and results
- Self-reflection
- Moderate living
- Recognizing positive life
- Opportunities
- Timing
- Organization and people (Dalai Lama & Vanden Muyzenbery, 2008)

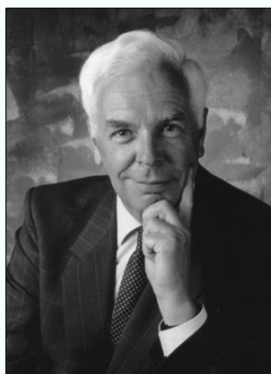
Self-reflection and critique, doing good / making merit, a balanced and sustainable approach, and a long term view are compatible with other business cultures. The starting point is the recognition and critique of values reflecting a specific business culture, and a practice consistently based on what is right not what is wrong.

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An Outcry for “Change”

Gerard van Schaik: Honorary President, EFMD & former Chairman of Heineken



We are in a global economic mess and we know it is man-made. If we want to get out of the present chaos we will have to manage it ourselves; nature will not do it for us.

Crises come and crises go and during any period of insecurity there is invariably an outcry for “change”, change to the law, the rules, the system, our behaviour – you name it. From all quarters of society come suggestions for what should be done to lead us back to our previous affluence and success.

One notices that most of the time any action taken is globally uncoordinated (at best coordination takes place at national or sporadically at intergovernmental level such as via the European Union or G8.) But usually action is taken ad hoc at the micro level.

It is not surprising that the ambition of both politicians and corporate leaders is to bring about quick turnarounds and improved financial results.

For varying reasons there is usually little time and money available to find out why things have gone wrong. The focus is mainly on what has gone amiss, how to prevent further deterioration of the situation and how to put things right as quickly as possible.

In this, we see a lot of opportunistic patchwork, and not well-thought-through legislation, regulation and restructuring. There is a lot of “quick fixing” done so change will mostly be superficial and of a temporary nature.

Having spent my active life in the corporate world I dare to say that approach is partly explained by the fact that line managers – who take the operational steps in organisations – are in general quickly bored with lengthy analyses and time-consuming research.

Moreover, the present generation of managers has been educated to act fast, to “diagnose and cure” quickly using sophisticated toolkits, and is conditioned to go for optimal results (both for the business and for themselves) in the shortest period of time.

The call for change is also heard in the world of business education. Business schools ask themselves what the impact of the ongoing crisis will be on their own future and the products they bring to market.

Self-reflection is positive. It is very necessary that the academic world looks hard at what it is doing from time to time and probes whether there is cause for revision or drastic overhaul of programmes.

I am convinced, however, that the outcome of this process will not be that knowledge and skills acquired at business schools inevitably produce managers who are doomed to create the type of mess we are now in. Fortunately, we know that is nonsense. If it were not we would be in a sorry state and schools would have a serious problem.

What has happened in the recent past has to do with dishonesty and immorality. Business schools cannot be blamed for unknowingly having trained and educated a limited number of crooks among tens of thousands of honest, incorruptible managers.

What they should ask themselves, however, is whether they are sometimes inclined to too easily accept the business fads and fashions of the day. They may even contemplate if they actually help to develop them further without properly researching where it might

ultimately lead. Taking the recent past, one can think of such trends as shareholder focus, reward systems, financial product development and others.

Not enough research has yet been done on the “why” of the collapse, which originated in the American financial world, and the domino effect worldwide in the corporate world of industry and services.

Was it the US government’s decision not to bale out Lehman Brothers that started it all off, and could it have been prevented by an opposite government action? Or was the finance industry globally so sick that it would have happened anyway?

I am not in a position to judge what action business schools should take to better serve their customers (their customers being society as whole not just their students) in years to come. I feel that reputable schools around the world have served business and public institutions well in the past and supplied the type of managers business demanded.

The crazy excesses that we saw (and still see in some quarters) in management behaviour such as large scale-fraud, environmental crime, exhibitionistic remuneration, and so on, are not the product of management education but of the business community itself.

If you introduce business philosophies that focus on short-term gain and then link them to pay packets that benefit from inflating financial results you should not be surprised that some characters will use every trick in the book to foster their own wealth. If social control on such behaviour is virtually non-existent it is just a matter of time before things blow up in your face.

Codes, rules and regulations may make it more difficult in future for people to behave excessively in this respect but will not prevent it. Locking up the premises does not mean the thieves have gone; they will just start looking for another way to enter.

During the last decade the shareholder was the idol that had to be served unconditionally as the sole owner of the corporation. Although this is legally true, we all knew that with this approach business created its own problems.

The shareholder is the least faithful of stakeholders in a company and are, in nine out of 10 cases, corporations or institutions that strive to maximise their own profits. They are interested in share value and dividend and not in the market position or strategic direction of a company they invest in. If they can do a better deal somewhere else they move out, not caring a dime what the long-term consequences are for the corporation when they say goodbye to it.

Although the negatives of abandoning the stakeholder approach and the beatification of the shareholder were already publicly noted in the early 1990s it took two crises before the focus on stakeholders – shareholder being one of them – was actively reintroduced in business schools.

In 2000 the concept of global social responsibility was launched, highlighting the fact that the manager of the future would have to consider the strategies and actions of his or her corporation or division in a societal context and not only on a company or industry basis.

We are almost ten years down the road and we are still discussing how the idea should be made operational both in teaching programmes and at a corporate level so that it does not become just a “show” chapter but an integral part of the business plan.

Although it is now – thanks to the crisis – generally accepted that social responsibility is a core focal point in business, a great number of business schools seem to have missed an opportunity to take a lead by being too slow on the uptake.

“Self-reflection is positive. It is very necessary that the academic world looks hard at what it is doing from time to time and probes whether there is cause for revision or drastic overhaul of programmes.”

Business life has always known many “fads”. In my active corporate life we have had the period in which production was core, then marketing, financial control, logistics, human resources – each discipline got its turn at prominence.

Consultants and business schools were quite often the instigators of the temporary focus on a certain discipline. But at a certain moment the financial discipline started to overshadow everything. In the process corporate “money” became an “objective” instead of a “means” – and it still is.

If one wants to judge the role of business education in these developments one can ask the question whether business schools have been close enough to their customers to be able to influence or criticise thinking or have they limited themselves solely to their student body? Have they tried to be a counterweight in situations where, in their view, corporate policies and government actions in general were to the detriment of the long-term welfare of society and the business community in particular?

Most people would say this is not the mission of a business school. It should just deliver well-trained managers who are sensitive to the place in society of the entity they are serving.

I think the latter view is narrowing the field of responsibility of a business school too much. But how far the business school community should go in trying to participate actively in the operational implementation of the social responsibility concept in the corporation or a public institution is an open question. I believe they should try to play some role in future through some form of partnership but research will have to help us find out whether such a thing is possible and desirable.

One thing that this crisis is making abundantly clear – and that it is worthwhile studying – is the question of whether the business school community (as part of our society) should play a more missionary and a more pro-active role in future. Should it play a “guiding” role with regard to the do’s and don’ts in the business community? I think so.

Business schools have a lot to offer through their international networks, their experience with people from different occupations and different cultures, and their expertise in enhancing “the quality” of people. Apart from the many other channels through which they can make their views known their executive education programmes give them a direct link with a variety of businesses and they should capitalise on this.

These contacts can be exploited to see what’s brewing in society, what new ideas and approaches are developing in the business world, and try to play a role in the discussion. The relationships that are cemented with students of executive development programmes should be used to exchange mutual experience, knowledge and research to discover how the spectrum of the school can be widened and its role in the business world can be enhanced.

Line managers – however well educated they may be – will always be inclined to “micro-nise” their field of thought and actions. In their decision making they usually end up only considering aspects that have an immediate bearing on their company’s actions today or at best this year. Thinking through the wider societal aspects and the connected long-term implication of a more comprehensive approach are usually not popular with “doers” and “performers”.

If the business school community wants to stay connected and exercise influence on the way our community is managed – and after all their core business is educating managers – then it is essential that they are outward looking and heard in society.

In the world of business and government nobody cares how they are organised internally, whether sufficient articles are published in reputable magazines, what liaisons they have and what research is being done. That’s their problem. The outside world is only interested in the variety and quality of products they offer, the quality of their graduates and their contribution to society. The present crisis has highlighted that there is ample room and

reason to play a role in the debate on how businesses should be restructured and run during and after the economic recovery.

As mentioned above, many of the problems we are facing have been caused by attitudinal aspects of management. As welfare increased we eased up on accepted norms and values and, under the guise of stimulation of growth, gave room for individualistic behaviour and greed. The doubtful business attitudes and ethics of some individuals that have become known in recent years have probably lost the corporate world more public trust than any corporate economic failures.

There is no doubt in my mind, though, that in spite of all the indignation about moral excesses and the calls for change, the moment the economy really picks up again most of that will be forgotten. The corporate world will continue restructuring and controlling the development of costs, but will be busy again with its day-to-day worries. Apart from isolated cases little, if any, fundamental change will take place in society. If we are not careful, steps taken in the field of social responsibility at company level may drop out of the system and we will chase profits and bonuses in the way we used to do.

So now is the time to make it abundantly clear that management as before is no longer acceptable. We want to ensure that the view that the company is part of society and has responsibilities to society at large is preserved. It cannot just consider the interest of its own industry or a limited number of stakeholders.

This is difficult to enforce. Social control, the most powerful of drivers, is based on societal solidarity and is non-existent in the developed world but business schools have a role to play here. They educate the future generation of managers and can convince them that by managing differently to their predecessors they can secure both the continuity of their business and the trust of society.

Though the present situation may tempt them, we should avoid at all costs allowing governments to tell us how we should run our businesses.

Many things need to be revisited in the programmes that are being taught in business schools if we want to take into account the things we learn from the chaos we are in. But little of it has to do with management techniques. It is more a matter of bringing soft skills to the fore and emphasising essentials in managing and running a company or an institution that cannot be worked out on a computer.

This means taking the company out of its isolation and putting it slam in the middle of society; demonstrating that by managing a company in a socially responsible way you can still maximise profits, and can still contribute to the welfare of interested parties but also to society at large. By doing so, this also means winning the trust and acceptance of the general public and securing the continuity of your business.

It is desirable that in the rethinking process that will take place in the business school world, creative thinking will dominate and that the “soft” side of business will not be caught and taught in rigid formats but with adequate room for cultural differences and personal convictions. After all, techniques are a help but ultimately you manage with your guts. Now, more than ever.

Whatever is revisited, it is to be hoped that the end result will make business schools more outward looking than ever before, bring them in permanent close working contact with their market (business or government), and make sure their views are heard in society. □

“Business schools cannot be blamed for unknowingly having trained and educated a limited number of crooks among tens of thousands of honest, incorruptible managers.”

Are Business Schools to Blame for the Current Economic Crisis?

Eric Cornuel: CEO & Director General, EFMD



Are business schools to blame for the current economic crisis? Have they taught techniques, methods, and an approach to business that has resulted in irresponsible and dangerous behaviour? I believe they have not.

As Gerard van Schaik, Honorary President of EFMD, has pointed out, the idea that business schools inevitably produce managers doomed to create the type of mess we are now in is “nonsense”.

Much of what has happened in the recent past, he states is related to dishonesty and immorality. Business schools cannot be blamed for unknowingly having trained and educated a limited number of crooks among tens of thousands of honest, incorruptible managers.

The excesses that we saw (and still see in some quarters) in management behaviour, such as large scale-fraud, environmental crime, exhibitionistic remuneration and so on are not the product of management education but are a part of the business community itself. Pride and greed are everywhere. They are part of human nature.

However, it is true that there would be little harm in business schools examining what they do and what they have done.

As Gerard van Schaik also suggests, they could assess whether or not they are sometimes inclined to too easily accept the business fads and fashions of the day. Indeed, they may even wonder if they actually help develop them further, without properly researching where it might ultimately lead. Taking the recent past, one can think of such trends as shareholder focus, reward systems, financial product development and others.

Certainly business schools must try harder to teach a responsible, ethical message. Bankers were gambling with money that was not theirs. We must spread the word of responsible business.

Despite common opinion that schools have only introduced components on ethics and values recently in response to corporate scandals, these issues have been covered in MBA programmes for decades.

But business schools can do only so much, and ethical standards must be taught earlier. Standards and respect have to be taught from kindergarten. If a four-year-old does not respect principles, there is not much a business school can do later. It is hard to change the embedded values in someone who is 25 or 35.

Business schools should question their methods for preparing participants to become innovators, leaders, creators and so on. In the context of a free economy, business schools have a crucial role to play in optimising the way institutions private as well as public- are managed, with the objective of ensuring the best possible level of growth, and thereby, we all hope, ensuring a dramatic improvement in peoples' lives.

The last two decades have seen the extension of the World Trade Organisation from 90 to 153 members and the greater integration of global markets, allowing goods, services, capital and technologies to spread across the world.

For less-developed countries this period has also led to a reduction in poverty, allowing better lifestyles, especially in Asia.

However, these dramatic improvements should not hide deep problems and injustices that remain, or the massive problems of poverty, ignorance and disease that many countries still face. Almost 40 per cent of the world's population lives on less than two dollars a day, and a child dies every 15 seconds due to lack of access to safe water and adequate sanitation. Since the beginning of the global era, we have witnessed a much stronger polarisation of wealth and economic growth, not only among countries, but nations.

Within this framework, what sort of intellectual contribution are business schools able to make to private and public decision makers – and more generally, to society as a whole? Management education has an important role to play at least two levels.

Firstly, the techniques and methods of management that are taught, and the research underlying them, should lead to a general improvement in managerial efforts and subsequently to optimised economic growth.

Secondly, the “soft” elements increasingly integrated in curricula should raise awareness of the role of managers in society in creating more social cohesion inside and outside private, public and not-for-profit organisations.

The economic problems we are facing today have created a situation in which companies and organisations generally try to limit their expenditures. This implies restrictions on the number of managers being employed, and a more limited utilisation of outside consultants. Alongside this, tasks have become increasingly complex and individuals have to cope in increasing stressful situations, not knowing which principles (or leaders) they can turn to.

It is precisely this type of challenge that our schools should be trying to overcome, so that they have something to contribute to firms' profitable growth, but also to society as a whole.

The business world is not a “star system”. Business leaders should not succumb to this trap, one that can sometimes border on megalomania. We have recently seen the result of this type of behaviour on many occasions in the news.

Similarly, the “shareholder” dimension appears to have become increasingly unsatisfactory for today's world. It should be replaced by a broader vision of both private and public organisations' responsibilities. Shareholders are important but people tend far too often to neglect other actors like a company's customers, suppliers or staff members – not to forget society and future generations, the environment and much more.

This is yet another area where our management schools owe it to themselves to retake a leadership role, by training managers and executives who are both humble and aware of their responsibilities, in the broadest sense of this term.

All in all, management education institutions should declare themselves willing to undergo a very in-depth change – one that without a doubt will force them to redefine the research they conduct and the educational content of the programmes they teach. □

“Business schools should question their methods for preparing participants to become innovators, leaders, creators and so on.”

Education, Not Regulation: The Key to Global Prosperity

John J. Fernandes: President and CEO, AACSB International



I am not an academic, which I believe almost everyone knows. My perspective is simply one of a practicing manager that graduated with a business degree from Babson College way back in 1975. I also picked up a master's degree in public, not business administration, more than twenty years ago.

My colleagues on the Global Foundation for Management Education Board are all very accomplished business academicians. They know what they are writing about and I was happy to see them volunteer to write their thoughts on the financial crisis and expectations for management education. Naturally, not being an academician, I thought I was exempt from this assignment. Not so, I learned last month while visiting my friend Dave Wilson at GMAC's offices in Northern Virginia. It was only during our discussion concerning the work of the Global Foundation for Management Education that I learned from our Vice President and Chief Knowledge Officer, Dan LeClair, that I, too, was expected to write down my thoughts on the financial crisis and potential impacts on management education. Okay, my friends, so here they are! Bear with me, it's a long story.

I started my career in June, 1975 as an internal auditor with Exxon Company, USA, in Baltimore, Maryland. Our field unit was responsible for the internal auditing of the Eastern Region of the US, which contained primarily marketing and distribution operations. It didn't take very long to learn that managers may try to cheat in their operations and financial performance and reporting, and that good internal auditors often catch them. My first fraud was pretty simple. Retail store managers would charge for labor associated with automobile repairs, but when the daily books were done, sly managers would sometimes report significantly less labor revenue than was charged to the customer. Retail managers who practiced this deceit, and there were more back then than the company would likely want the world to know, would say that they were just covering shortages in inventorial parts. But the truth was, they were also keeping some for themselves. When we found an overly gluttonous manager at one of the Baltimore retail stores, corporate security got involved and, well, that gentlemen went to jail. He said he needed the money for a surgical procedure for a family member. There is always a reason.

While this early career introduction to financial manipulation for personal gain might seem trivial, it served a lesson to me that has lasted and has been regularly reinforced for the past thirty-five years. There were many more types of mini-frauds in the oil giant's field operations, and I daresay, Exxon USA was managed very carefully and with extensive internal controls. Most likely, it was that environment that helped uncover wrong doing before it got out of hand. Yet later on in the 1970's Esso Italia was caught being a little too financially friendly to Italian government officials with unrecorded company funds. Internal auditors at Esso Europe had pointed out that funds weren't accounted for, but Esso's Italian managers assured senior management it was just a simple mistake. The mistake was that Exxon waited too long to clean up the "mistake", and as a result, Exxon Corporation had to file a consent decree with the SEC. Many other corporations had made illegal or questionable payments to foreign governments totalling an estimated US \$300 million.

Shortly thereafter the Foreign Corrupt Practices Act of 1977 became law, a law that applied to all US companies and their affiliates no matter where they operated. The FCPA said among other things, "no more bribes to foreign government officers" and that, "access to assets could only be made in accordance with management authorization".

Further, companies under the governance of the Securities and Exchange Commission (SEC) must have proper “internal accounting controls” that were monitored by a review process. These requirements applied to all accounts, not just those held in foreign countries.

Corporate accounting Sheriff Arthur Andersen came up with their innovative Transaction Flow Analysis (TFA) process to meet FCPA requirements and hundreds of companies listened to Sheriff Arthur and implemented their system. We will talk more about Arthur Andersen later on. Now it was thought by many a government and elected official, as well as a cadre of managers, that the FCPA would cure the risk of financial malfeasance and that, certainly, detective processes like TFA would catch any evil doers.

Not too many years later, following the mercurial rise in interest rates in the US, we heard there was trouble in the Savings and Loan industry. Many S&L’s had so many bad loans that liquidity was decimated. So called regulatory accounting procedures were a major culprit and the S&L industry was knocked to its knees. The Foreign Corrupt Practices Act had not anticipated the S&L risk and TFA application was insufficient to prevent it. What was believed back in the 1980’s was that more regulation was needed. The FCPA was just not enough. So, the US government set up the National Commission on Fraudulent Financial Reporting (The Treadway Commission), nicknamed for its leader. Treadway said, in a nutshell, that poorly trained audit committees and ineffective corporate governance were to blame, in part, for the savings and loan debacle and fraudulent financial reporting. Treadway contended that if these malfunctions were fixed, well, all our worries of potential financial shenanigans would be mitigated. So, many more companies adopted internal audit staffs, audit committees were “trained”, and a Committee of Sponsoring Organizations made up of accounting gurus, was formed to develop a new framework for internal controls. The advent of stronger corporate governance, including curricula in business schools emerged. Some schools, like Kennesaw in Atlanta, set up centers for corporate governance. Now, it was believed, we would all be financially safe.

Off we went into the 1990’s, confident that we had seen our last major financial blow out. It seems that every ten years or so, a new financial crisis arises and sure enough as the 1990’s gave way to the new millennium, SEC Chair Arthur Levitt, (Arthur The Great, in my opinion) began talking about earnings management, “big bath” write offs, and other financial statement manipulations that sounded like financial fraud light. Mr. Levitt was a financial soothsayer as it turned out as earnings management and financial reporting loopholes made way for the great fall from corporate Gibraltar emanating from the sleaze at Enron, WorldCom, Tyco and so many others. These emboldened titans learned how to manipulate their growth and stock position by simply cooking the books in a way that allowed firms like old Sheriff Arthur to simply look the other way. After all, the transactions were in accordance with management’s specific authorizations (FCPA) and the audit committee knew what was going on (Treadway). The lawyers said it was fine; yet these global giants fell to their knees and took all of their investors and employees with them. Some took their own lives or fell victim to the aftermath of these corporate meltdowns. Sheriff Arthur passed away. We should have listened to the other Arthur all along.

For the first time, business schools, perhaps by the prominence of Enron bosses Skilling and Fastow’s alma maters, were called out as potential causes of the financial demise. Many schools rushed to increase and enhance their ethics and governance education curricula and AACSB ratcheted up its accreditation standards. Once again, the always-looking-ahead United States lawmakers crafted yet another massive regulation, the Sarbanes-Oxley Act of 2002. This time, for sure, mighty Sox would prevent any further financial failures or fiscal cavities. The once Big Eight accounting firms were now the Final Four, armed to the teeth with regulations and vast armies of newly trained accountants. Section 404 work was the most expansive attack on financial fraud, as well as the most mind-numbing activity to constrain management risk tolerance ever imagined.

“First, we must teach managers to anticipate and manage risks in advance of their occurrences...Second, we must eliminate excessive compensation for short term performance.”

No one would dare to make the wrong decision again. Long live the mighty Sox! Comply or die! One need not worry about risk, now that Sox is in the game.

Sarbanes-Oxley was in a full bloom by 2004 which is right about the time the subprime mortgage market was booming. Lots of loans exceeding asset value were awarded to individuals buying over their heads with the urging of loan grantors who all made tidy profits and personal bonuses. Nothing seemed awry because businesses and economies were growing and after all, we had Sarbanes-Oxley to protect all of us. There would be no more Enron-like Tom Foolery. But Sox was a master at compliance, a look-back system, and the hundreds of millions of dollars spent on compliance each year, didn't do the job when it came to identifying and managing the emerging risks in the financial services industry.

Just about a year ago, the sky fell, triggered by bad loans and the failure of Leman Brothers. Beginning in the US, and then travelling at the speed of light throughout the world, investors lost their appetite for risk and the world plunged into deep recession. In my lifetime, I had never seen the US as close to a depression as we were in late 2008. While we may all speculate on what saved us from financial abyss, I believe that bail outs at least said to the world, "enough is enough. We are going to do something about this." And the world settled down little by little. While I do not want to imply that the world economy is out of the woods in late 2009, I think we have stared down the barrel of financial ruin, and we have survived... at least for now.

The lesson I have learned these past thirty-five years is that every so often, we will face financial threats that will be so invasive they will injure world economic well being. Most of these will be caused by the desire to make more money. While 2008 may have been the biggest financial crisis in my lifetime, much worse could happen if we don't do two simple things that are so hard to adopt universally. First, we must teach managers to anticipate and manage risks in advance of their occurrences. Managing information swiftly, efficiently and with good intentions is a must. Second, we must eliminate excessive compensation for short term performance. It brings out the worst in human behavior. The implications for management education are continued better ethics and governance education, greatly enhanced risk management curricula, learning goals and assessment techniques, and business curricula and learning goals designed to produce individuals with skills and preferences toward achieving sustained organizational performance and global societal well being. Through international business school alliances and global initiatives to improve the quality of management education, business schools might just be one of the major contributors to enhanced quality of life throughout the world.

Better education, not more regulation, is the key to global prosperity. □

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GFME

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The GFME seeks to collaborate and cooperate with organizations and individuals throughout the world, recognizing the cultural aspects and sensitivities of its global constituency. It is focused on thought leadership and collaboration rather than on accreditation.

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