

The Future of Business School

Author Rakesh Khurana fields questions about the role of B-schools in the financial crisis, the professionalization of management, and needed reforms

The economic crisis is putting the spotlight on business schools. Some critics [pin the blame for the economic implosion on business school programs](#), citing [MBAs who played key roles](#) in the crisis. And just about everyone seems to have [an opinion](#) about it. But no one seems to know for sure what the future should look like for business schools either.

Rakesh Khurana (RakeshKhurana), [Harvard Business School](#) professor and author of *From Higher Aims to Hired Hands: The Social Transformation of American Business Schools and the Unfulfilled Promise of Management as a Profession* (Princeton University Press, 2007), knows the history of the MBA better than most, and has specific ideas about what the future of the degree should look like. At a live chat on May 22, Khurana answered questions from *BusinessWeek* reporter Francesca Di Meglio (FrancescaBW) and the public about where business schools have gone wrong and how they can improve. Here are edited excerpts of the conversation:

FrancescaBW: Should business schools take any responsibility for the economic crisis? Why or why not?

RakeshKhurana: That is an important question. As you wrote in your article, I think the answer is not black and white. It is more nuanced. Business education is part of the business system. Consequently, as part of the business system, it plays a role in producing both ideas and individuals inculcated with those ideas for business. It is also influenced by business practice and influences business practices. Consequently, I think it is an important portal from which to examine what happened in recent years with respect to the economy.

FrancescaBW: Do you think professionalizing the MBA is the right move to make? If so, will it ever happen?

RakeshKhurana: I do think moving toward some type of professionalization is important. Indeed, if business schools are not professional schools, what are they? The only choice left is a vocational school. If we are vocational schools, there is really little reason to have business schools in the university. The goal of a university is to produce value for society. Professional schools, in particular, have a role for producing individuals who will act as

guardians of society's interests. If that is not a role business schools are willing to take then I think we have important existential and structural issues.

The roots of business schools are in professionalizing management. Indeed, the modern university-based business school arose at a time when there were numerous questions about the role of business in society and whether large corporations could be trusted to operate in a way that was consistent with broader societal objectives. So, I think professionalization is in our DNA.

I do think there are three areas where business schools have to improve. First, there is no longer any agreement about what constitutes a business education. Take the MBA, for example. How long should an MBA take? What are the core courses? How do we certify whether people actually mastered the knowledge they were supposed to have learned? Right now, business schools do not have good answers for these questions. There are heterogeneous programs. Many business schools (including elite schools) have moved away from a core curriculum. Can you imagine medical or law school not knowing what to teach?

Second, business schools need to inculcate students with a sense that there is a commitment to use the knowledge they acquire for advancing the interests of the institutions they are charged with leading, rather than self-interest alone.

FrancescaBW: Can you pinpoint one or a few times that the business schools went wrong and might have led to the situation we now have?

RakeshKhurana: I think where business schools went wrong was starting to see themselves as business and not enough as education. Too much of contemporary business education offers a narrow concept of the role of business in society. It is not holistic, nor does it take into account the competing claims that a variety of constituents have on the firm. Consequently, the leadership training in business schools tends to be narrow, functional, and specialized. It does not produce a broad, integrative understanding of business.

In recent years, business educators have adopted the language, techniques, and structures more often found in the subject they are supposed to be studying. For example, the idea that we are in an industry has led to a competitive mentality among business schools. One consequence of this is a race to the bottom with respect to requirements and a weakening of educational standards.

FrancescaBW: Here's a question from one of our readers, Niall, who couldn't join us: In 1987, Harvard was given a major donation by John S.R. Shad to support school-based initiatives in ethics and leadership. The book *Can Ethics Be Taught?* by Thomas R. Piper, Mary C. Gentile, and Sharon Daloz Parks (Harvard Business School Press, 1993) goes into some detail on the effort made by Harvard to address how ethics was introduced into the MBA curriculum. Assuming those who graduated from Harvard during the '90s would have been in key positions during the credit crunch, can we presume that Harvard's attempt to address this issue failed? And if a big-name

business school, full of learned academics and well supported with funding, cannot influence the market, is it fair to say business schools are not properly educating future leaders?

RakeshKhurana: I would adhere to what Niall just offered. Much of what business education is doing right now is conflicted. We have not been clear about our purpose. Consequently, how we think about everything from the types of students we recruit, to our courses, to the faculty we promote, to the research we do, tends to be inchoate and sometimes working at cross-purposes.

I think one of the challenges with ethics courses in business schools is they tend to focus on "personal" ethics, not "institutional ethics." These are two different forms. An example of institutional ethics is the Hippocratic Oath's notion of "doing no harm." An example of personal ethics is the "mirror test." While the latter is important, it is the former that ultimately gets teeth and a governance system behind it.

There is an entire infrastructure developed around institutional ethics (medical associations, bar associations, licensing, testing). To be fair to business schools, management lacks this institutional scaffolding. Consequently, corporate culture and the idea-of-the-day influence too much business practice.

FrancescaBW: Do you have suggestions on what to do instead of ethics courses as we know them at MBA programs? If so, what?

RakeshKhurana: I think if we want to go beyond ethics, we need to encourage the students and alumni to begin developing the external infrastructure for ensuring the MBA does not become three scarlet letters. It is the students and alumni who have to operate in the workforce. If the idea that MBA degrees merely convey elite social connections or technical wizardry—but not character—persists, then MBAs will suffer the consequences and the lowered status in society.

I am a strong believer in the free-enterprise system. But what makes the system run is the ability to self-govern. If business leaders do not adopt the capacity to self-govern, society will regulate business. We already saw this with Sarbanes-Oxley. I think we are now seeing much more of this. Regulation alone is a crude way to run an economy.

FrancescaBW: We've spoken a lot about what administrators and professors can do to change business schools. But what can applicants, students, and alumni do for their part?

RakeshKhurana: I think society, students, applicants, and alumni have to be more vocal about what they expect from business schools. This is why I think the blame can't solely be laid at the schools' door alone. Over the past several years, there has been a strong tacit understanding among these groups. Students come to school for the network, career offices send students to high paying jobs, the ranking of the school go up, alumni donate, and the cycle is created.

If we want to change an institution, the pressure has to come from its external constituents. It is important to understand that business education is an institution and institutions, by design and definition, are constructed to resist change. It is typically external pressure and legitimacy crises that lead to institutional change.

FrancescaBW: Let's talk about the rankings. What role has the media played in business schools' problems?

RakeshKhurana: The rankings have played some role in business schools seeing themselves as businesses. But I see rankings as a symptom, not cause. If business education had a clearer purpose, there would be other factors used to evaluate business school quality. Rankings are a lot like quarterly earnings reports. For organizations that don't have a clear strategy and mission, operating to quarterly earnings becomes a substitute for a clear strategy.

One element of the rankings that bothers me is the use of starting salaries to rank business schools. This dissuades admissions offices from hiring students interested in working in the social sector, social enterprise, or entrepreneurship more broadly because these students won't have high starting salaries. Consequently, it might exacerbate admitting individual contributors rather than builders.

FrancescaBW: How much has business school curriculum contributed to the economic crisis?

RakeshKhurana: The Aspen Institute has found that much of contemporary business education consists of a shareholder maximization model which is drummed into the students during their time in an MBA program. It also inculcates in students a very utilitarian view of business.

Let me elaborate. In too many cases, students have adopted a learn-earn-give mentality with respect to their business career. Students don't see working in business as giving to society. I think this is a harmful view. Part of a professional ethos is that in the course of doing one's work, one is giving to society. However, in the case of business, giving consists in producing services and products important to the social welfare. It also consists of putting the interests of the institution you are charged with leading ahead of self-interest. I also think things like stock options, etc., in which people have to be "bribed" to do their jobs has contributed to some of the problems we have seen of late.

FrancescaBW: How can this be corrected? What could replace the shareholder maximization model?

RakeshKhurana: The shareholder model is too blunt and simplistic. It does not capture the reality of business. Consequently, it creates a cartoon view of the reality of business leadership. Think about the complex web of institutional relationships business operates in. There are not only shareholders, but other constituencies (for example, employees, community, social movement groups such as Greenpeace, regulators). If you only focus on shareholders, you get an incomplete picture of the context. Moreover, the shareholder

perspective does not take into account that organizations must not only perform from an economic perspective, they also have to operate in a way that is consistent with the social rules of the game. Business requires legitimacy to operate.

If a business leader does not understand this, he will operate his business in a shortsighted way. Consequently, we don't teach many important skills necessary for effective business leadership—for example, analyzing the environment beyond competition, how to manage public constraints, how to understand the norms and expectations of the environment you are operating in, how to build corporate social capital and political capital. We have a lot to do on this front. We need to do research and then bring this research into the classroom.

FrancescaBW: What misconceptions do you think the public holds about MBAs?

RakeshKhurana: I think there might be a misperception that MBA students are only in school to get money. My experience finds that MBA students are extremely bright, motivated, and ambitious. The quality of MBA students in business school programs today is the highest it has ever been, measured by GPAs, etc. Full disclosure: I have several MBA family members.

FrancescaBW: Why do you think the public has developed such hatred and anger for MBAs then? And how can MBAs overcome these perceptions?

RakeshKhurana: What I find is that MBA students want to find work that has meaning, and they want to find meaning in their work. We need to demonstrate how this is done—and not give students a sense that business is solely about shareholder maximization. Maximizing wealth for an abstract category is not motivating. It also demeans what business does for society. Moreover, it paints an unflattering and self-reinforcing picture of management and business leadership. We need to show that not all MBA students are solely in it for personal wealth, but rather wealth creation. Most MBA students want to be value creators, not value extractors. Too often, though, the role models we present to students and society about MBAs is the buccaneer financier, not the manager or entrepreneur.

I think we have an opportunity to reshape MBA education and consequently MBA culture in the 21st century. The kinds of problems society confronts (pandemics, sustainability, environment, inequality), these are the kinds of problems that business can help solve, but only if it is infused with a broader, more society-focused institutional leadership. I think business schools can help produce these types of leaders but only if we begin to change.

As educators, we need to develop a more holistic, integrative curriculum and research basis that identify frameworks, concepts, and models that we teach our students. We also need to think about 21st century pedagogies. Moreover, because business is changing so fast, we need to build in continuing education as part of MBA education.

FrancescaBW: If you could summarize your message for business schools in a few sentences, what would you say?

RakeshKhurana: One way of looking at the problem with American business today is that it has succeeded in assuming many of the appearances and privileges of professionalism, while evading the attendant constraints and responsibilities. Although it is now fashionable to denigrate the idea that business plays an important, critical, and noble role in society, I believe business is too important an institution not to be run with a professional orientation. At the heart of a profession, any profession, is the notion of a calling.

FrancescaBW: Are you optimistic about the future? What do you see in the coming months that might indicate change at business schools?

RakeshKhurana: I am optimistic about the future of business schools. We have an enormous opportunity to serve society. I think what we now need is the will to exert effort. The skills are there. We also need a clear vision about what we are doing. We need to re-animate our purpose. Too often business schools evaluate themselves by starting salaries and yield rates. What we should be evaluating ourselves against is the measure of producing leaders for the benefit of society. I also think that business schools need to start acting like leaders.

Part of leadership involves accountability and responsibility, but it also, most importantly, relies on articulating a future direction. We need to pick three or four important areas: curriculum reform, research that is integrative and problem-directed, a faculty committed to the future of their students, not just their own narrow disciplines, and a deep engagement with society and practice. If we do these things, I believe the future for business education is bright. Business education is one of the great success stories in American higher education, but I think like any successful institution, we may have relied too much on the past, and not spent enough time focusing on our future.

I guess what I am saying is that many institutions contribute to a vital and dynamic society. But at their root, what makes these institutions come alive is an ultimate purpose. What is the purpose of business education? Is it to make money or is it to make the world a better place to live? These are two separate things. They are often congruent, but sometimes they are not. They are not congruent when the lion's share of the economic benefits go to a small number of people and the lion's share of costs are borne by those who had little to do with creating our current problems. These are also not incongruent when an institution is willing to sacrifice its public purpose mission for short-term expediency. We have seen consequences of this. I want my students to be employable. But there is much more to an education. Education is about training the whole person. Business education can and should be a transformative experience.

Rufus: What role does the student culture of the business school play in building ethical MBA graduates?

RakeshKhurana: As far as student culture, I think there has been sometimes hesitancy among many students to go against the grain of the "unbridled" capitalism model publicly in class. Students need to challenge each other and challenge their faculty when they find these issues discussed in an uncritical way.

Moreover, ethics issues should not be isolated in an ethics class. Push your faculty (finance, organizational behavior, accounting) to discuss the ethical implications of some of the tools they are teaching and the cases that have ethical implications. I think this will begin changing the culture.

Fred Collopy: Which schools are most likely to take the lead in real reform?

Rakesh Khurana: I think there are a number of schools that will look at reform. The research we are doing [at Harvard] as part of our Centennial review of business education finds that a number of very distinctive, new ideas are being tried out in the smaller, less-visible programs. In the larger, more well-known programs, there are innovations related to social enterprise being tried out as well as more reflection around leadership. I am not sure where all of this will land and what will get institutionalized, though. My biggest worry is that these changes will not affect the core operating system. I think we need to approach business school change in a systems way, not simply in a laundry list way. We need to look at the totality of the system of employers, students, faculty, curriculum, faculty-promotion criteria, rankings as a whole and think about how we get system change if we want profound improvement.

Link: http://www.businessweek.com/print/bschools/content/may2009/bs20090526_498100.htm