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The Retreat of Professionalism in Business Education

Rakesh Khurana
REMARKS

THE RETREAT OF PROFESSIONALISM IN BUSINESS EDUCATION

Rakesh Khurana*

I. Distrust of Business Education

First of all, thank you for inviting me and giving me the opportunity to speak today on an essential and important subject: the restoration of trust, not only to our businesses but also to our institutions in general.

If you look at the most recent Pew and Edelman surveys, our leaders in society are now the least trusted they have ever been since these polls were begun just after World War II.1 Business leaders are now the least trusted individuals in society. In fact, they now rank lower than Washington politicians.2 If you are a person from a business school—like I am—who cares about the free enterprise system and capitalism, it is time to address this important issue.

I want to talk a bit about business education. In many ways, it is the great success story of graduate education over the past hundred years. Business schools have become one of the most important components of higher education. The degree has been institutionalized. Almost every major public university now offers some form of business education, either at the undergraduate or graduate level.

Business education is found in many of our most elite research universities. It is a global degree, unlike many other degrees. For example, law is often specific to the federal or state jurisdiction in which you are located; and, while arguably the human body is a universal entity, medicine is often restricted to a particular jurisdiction, too. The MBA itself, though, is often regarded as an elite global degree.

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In many of our highest-paying occupations, an MBA is a virtual prerequisite. There has been an illustrious list of MBA graduates in America’s top corporate, financial, and government positions. In fact, the last administration was called the “MBA Administration,” which may give you some hint about the state of business education.

If you look at CEOs with MBAs from the major universities, you will see that there has been a dramatic increase in terms of the Fortune 500: more than two-thirds of those CEOs have MBAs, with the largest coming from some of the older institutions like Harvard, from which I hail. Given the success of that, though, there is also a great deal of anxiety and worry concerning the future of the free market system and where it stands right now.3

There is also a lot of anger. There have been protests in Iceland, France, England, and Russia4 in response to the financial crisis and the fairness in the social order. On today’s cover of the USA Today, there was a picture of many people protesting against the bonuses paid at AIG in Congress.5 Some of that anger has also been directed at the institution that I have been part of for the last twenty years of my life, the MBA education. You can see this anger in many different forms and corners.

On March 1, 2009, the New York Times printed several letters to the editor regarding an earlier piece about the pressure on the humanities to justify their existence in these trying economic times.6 Several letters described the importance of critical thinking and moral reasoning in the studies of the humanities, something that they saw lacking in both MBA education and many of our business leaders both inside finance as well as in other industries such as the automobile industry.7 For example, one individual argued that “[t]he subtleties of civilized living require an understanding of human functioning through centuries of ethical dilemmas, missteps and their consequences. . . . [I]t is not a trivial matter to be left to MBAs. We’ve tried that already.”8

7. Id.
Internationally, where the MBA degree has grown fairly dramatically, there was an op-ed published in The Times of London in which the writer said, “If Robespierre were to ascend from hell and seek out today’s guillotine fodder, he might start with a list of those with three incriminating initials beside their names: MBA.”9 Interestingly, the writer continues, From Royal Bank of Scotland to Merrill Lynch, from HBOS to Lehman Brothers, the Masters of Disasters have their finger prints on every recent financial fiasco. I write as the holder of an MBA from Harvard Business School—once regarded as a golden ticket to riches, but these days more like scarlet letters of shame.10

I draw this to your attention because, obviously, it is a little cheeky. I would, though, take exception with some of these letter writers about the details. I know there are business school faculty, not only in my own institution but across the United States, who care very deeply about these issues.

The truth is that even before the financial meltdown there was substantial evidence inside business schools that something had fundamentally changed in MBA education. We did not need the financial meltdown of 2008. We had already had Enron and WorldCom. Many business school faculty had a sense that our siloed and functional faculty was both narrowing research and leading students to an incomplete view of the firm and society.

Not too long after the Enron meltdown, Robert Shiller, the Yale economist, had published an editorial about what was happening in MBA education.11 He said that the world view was that the MBA education was not only a morally neutral education, but was actually imposing a moral content.12 He wrote, “the view of the world that one gets in a modern business curriculum can lead to an ethical disconnect. The courses often encourage a view of human nature that does not inspire high-mindedness.”13

Maureen Tkacik, an ethnographer and journalist who was studying Wharton MBAs, found, after a two-year ethnography, that “[t]he MBA above all teaches people to act like corporations, to follow the path of highest return on investment (ROI). Humans don’t know how to act like humans

10. Id.
12. Id.
13. Id.
anymore. Instead they are drones, vassals to their massive debt loads for whom reflection and critical thinking are not useful offsetting assets. 14

What the MBA even means anymore is under question. There is no longer an agreement about how long an MBA program needs to be. There are still some of the traditional full-time two-year programs like the one that I come from, but the fastest growing MBA programs in the United States are one-year, online programs. 15

Moreover, even among the elite schools there is no longer agreement about what courses should be required. For example, at Stanford and the University of Chicago, there is no longer a required curriculum because the faculty cannot agree on what it is that students need to know. This is precisely an example of what Professor Coffee raised. Competition has been a race to the bottom among MBA programs. At many schools, you give them the money and they will, essentially, give you the degree.

Unlike the traditional high professions of law and medicine, the barrier to entry is quite low. The number of law schools and medical schools has not increased dramatically, whereas MBA education has gone from 138 schools in 1955 to more than 955 today, two-thirds of which are unaccredited programs. 16

The fact is, we do not know what we should research. Increasingly, there is a lack of agreement among the faculty when it comes to promotion and tenure standards, and with regards to what constitutes research. 17 Is it theory? Is it contribution to the discipline? Or, is it contribution to managerial knowledge?

I do not want to spend a lot of time talking about the academic elements, but this has been quite well known even among faculty at institutions like mine: you are better off going up as a sociologist, economist, or psychologist for your tenure rather than saying you are a management researcher, because those degrees are valued more.

In fact, this reality has decoupled the degree and largely made it more of a credentialing process than one contributing any substantive body of knowledge. Finally, our students’ motivations for completing the MBA have changed. Students largely see an elite MBA education as an opportunity to develop elite social networks rather than to get an education.

In a story from The New York Times, an MBA student said,

I saw that people that had been working for 20 years did have MBA’s, but people five to six years older than me were not going . . . . Going to business school is a way for people to try to open the door, to try to get into a company or hedge fund. But if you’re already there, it doesn’t make sense to go.18

Scott Snook,19 a colleague of mine who has been following fifty Harvard MBAs, finds that most students largely regard the MBA as a networking opportunity. Students will often say,

You see that I made this my life now. It is very all-encompassing. On the one hand I have very little time and people will say to me, ‘well, why are you spending so much time doing what you’re doing? You don’t have to go to all these events.’ In a sense I feel like I do. I want to. It is fun, and that is what I am here to do. I am here to meet people. I am here to hang out. I am here to build a real network of friends and people whom I will eventually have some sort of professional existence with.

One consequence of this mentality is that there are also business schools that largely present themselves as networking opportunities and not for their educational value. For example, schools that advertise in airplane magazines largely present themselves on the ROI you get in terms of the starting salary if you attend this particular business school versus another business school. The fact that it is a graduate school that advertises in magazines that you find in airplanes is another issue.

II. A VERY BRIEF HISTORY OF BUSINESS EDUCATION

I want to tell you, in fifteen minutes, how we got here. I am going to condense a hundred-year history pretty quickly.

The original intention of the founding of the university-based business school was to create management as a profession.20 By profession, I mean not only the technical aspects of our profession in terms of mastering a body of knowledge and the difference between an expert and a novice, but also a profession in its normative sense. This is very much like Judge Chandler just talked about: a sense of obligation, a sense of duty, and a sense of putting the interest of society ahead of one’s own self-interest.21 That was the basis around which business education came to be established.

I want to talk about how that happened—how that project got abandoned and subsequently replaced with a very narrowing view of the purpose of the corporation, and the purpose of management, in the United States.

19. Associate Professor of Business Administration, Harvard Business School.
20. KHURANA, supra note 16.
The original arena in which professional education and business merged was at the crux of the shift from agrarian to industrial society in the late-19th century and early-20th century. That period of time in the United States was a period of a great deal of social unrest. There were questions of who should control the large corporation, or if the large corporation, itself should be broken up. In a country with Jeffersonian ideals, the notion that the large institutions of private power increasingly exerted power over individuals was of great question.

Should the corporation be run in the interest of capital the way it was, through the shareholders? Should it be run in the interest of labor through the unions? Or should it be run in the interest of the state through regulators? Individuals called managers began to argue that they would run the corporation not in the best interest of capital, labor, or the state, but in the best interest of society.

The fact that managers could be trusted to have the prerogative over what should happen to corporations brought about the debate concerning corporate governance and the role of shareholders, as emphasized by Lizanne. That is how we created the strong manager/weak owner regime that we have in the United States, as Harvard law school professor Mark Roe describes. For example, when the University of Michigan considered founding its business school, many received a letter from Edward Jones, one of the faculty members in the business school, talking about why it is that the University of Michigan should have a business school. He argued that “[t]he first generation of great ‘captains of industry’ in this country was composed of men of exceptional native powers who fought their way upward . . . .” This is sort of the Horatio Alger great man story. “[A] notable change has been taking place in the character of our industrial leadership. The sons of the pioneers, reared in self-indulgence, do not as a rule show either the ability or the desire to take the place of their fathers as leaders.”

Right? Turns out, yes, you cannot inherit that quality. But, he also said:

There has begun to emerge a special class of administrators, who are not capitalists, but stand midway between the multitude of stock and bond owners on the one side, and the wage-earning classes and the public as consumers on the other.

This special class is more and more becoming responsible for the inauguration and execution of industrial and commercial policies. It is the great opportunity of this college to assist this

23. Id. at 33.
27. Id.
rising profession to a consciousness of itself, to help it realize its trusteeship, and to stimulate it to conceive itself as an intellectual aristocracy in the world of affairs.

By affording the scientific training and the knowledge of the basic principles of administration, properly buttressed by harmonious minor technical principals, the college may assist in making good the expectation, everywhere gaining ground in industry, that a new, high, fine, scientific, industrial leadership is about to come into existence.28

There are three important elements here. One was that management was becoming a profession, and a profession not only in its kind of responsibilities from a technical perspective but also in its normative responsibilities.

Second is the notion of science. Business education becomes part of a university through science. There is a belief that a body of knowledge needs to be mastered. You also want that knowledge to be used for the social good. This was the argument against the for-profit commercial business schools that existed in the United States. These schools were educating hundreds of thousands of people. They were delegitimized because, it was argued, they did not infuse students with any sense of calling or vocation for their job.

The third thing is that business education belongs in a university because there will be continual research to bring forth. The flip side to understanding this is that it is not a group of managers calling for a profession, but, rather, the academy.

Unlike the other traditional high professions of medicine and law, in which there was often a vanguard of practitioners who were themselves leading the call for professionals, here the idea was: if you build the school, the profession will come. This was a significant challenge for business education, especially with the incredible disorder that large corporations presented in the United States.

In the mid- to late-19th century there were significant changes that made it increasingly easier to form corporations. Prior to the mid-19th century, to form a corporation, as opposed to a partnership, you had to have a special act of legislature by the state.29 When that process shifted so that basically anyone could incorporate, there was a growth in the number of corporations, from literally only dozens in the United States to ten thousand incorporations happening each year in New Jersey, Ohio, and similar places.30

28. Id. at 187–88.
30. Id. at 33 (citing GEORGE HERBERTON EVANS, JR., BUSINESS INCORPORATIONS IN THE UNITED STATES 1800–1943 (1948)).
These corporations were not just numerous; they were large and increasingly exerted a great deal of impact in the United States. They became the primary agent to which action and responsibility were attributed. No longer was it, “John D. Rockefeller did this.” It was, “Standard Oil did this.” No longer was it that “B.F. Goodrich did this.” It was “the Goodrich Company did this.” The corporation had become the primary agent in the United States.

As we all know, the United States has the most violent labor history of any industrialized country in the world. There was a great deal of labor violence in the United States which was creating a sense of disorder, and there were huge numbers of hearings about how to regulate the corporation. It was in this mix, in this kind of socio-political-economic pool, that managers—this group that was neither capital, nor labor, nor the state—would run the corporation in the best interest of society. They would run it as professionals.

Owen Young, who was the Chairman of General Electric and one of the individuals who helped lead this effort along with Louis Brandeis, talked about this at the inauguration of the Harvard Business School. Young argued that the formation of the Harvard Business School meant that,


32. KHURANA, supra note 16, at 118 (quoting Owen D. Young, Dedication Address, in Dedication Addresses, 5 HARV. BUS. REV. 385 (1927)).
33. See generally KHURANA, supra note 16, at 51–85.
trust. If the manager was ever to see himself other than the hired hand, he had to believe that the public interest was what mattered, rather than private interest.

This framing had a huge success in the United States. Once management and management education were framed in this way, there was a dramatic decline in the for-profit management education world and a huge increase in university-based management education.

III. Dramatic Increase in the Number of Business Schools in the United States

Business education had been built on a Field of Dreams, that is, if we build it the profession will follow. Important questions remained unanswered, such as: Who should teach, what should they be researching and who are the students?

If you look at the leading business schools and those established first, there was no agreement among the faculty. Less than half of the faculty had PhDs, and a number of them were lawyers or accountants. This was true even at fairly elite schools like Columbia, Dartmouth, Harvard, and places like Illinois and Michigan. For example, there were required courses such as accounting and economics, which are common today. Also, though, there were other required courses, such as English and law.34 None of these courses are required today. Other courses which were not required at all, like organizational behavior or personnel management—issues around psychology which were very uncommon—now often form the staple of many business schools. Previously, there were a variety of different subjects that counted toward the business major. In some cases there were courses like “Trading Routes in Early Roman Empire” that counted towards a business major. It was a very inchoate field.

This did not stop students from studying business. By the 1920s, business replaced engineering as the most common major in the United States, and today, more than one out of seven degrees granted at the undergraduate level in the United States are business degrees. More than a quarter of all graduate degrees are business degrees.

The problem was that the student quality was not that great. In fact, business school students were among the weakest of all the students in the university setting. And at first people would say, “Well, you know, it depends how you measure it.” But if you look even on verbal skills you could say, “Well, business people tend to be analytical and business school students were the worst off.” Even on math and more quantitative skills, business students were often not as qualified as the typical student. As Wallace Donham, who was the second Dean of the Harvard Business School, said:

Even here [in the United States] young men enter business too frequently because they do not feel competent or inclined to enter any of the so-called learned professions, rather than from a positive desire to enter upon a business career. Business has thus become in part a catch-all and a dumping ground into which in the case of many families inferior sons are advised to go.\textsuperscript{35}

As I mentioned, business schools continued to grow dramatically. Then came the Great Depression, which was the first moment that business schools really started to look at themselves in the mirror and recognize they had not really succeeded in the professionalization project. James Bonbright from Columbia said that, “Our collegiate schools of business have chosen neither a social nor a private acquisitive goal in the molding of their curricula, which are based not on philosophy but on accident. We have drifted into the convenient practice of entertaining students with what we know.”\textsuperscript{36}

The following quote could have been cut from this morning’s paper: Clyde Ruggles at the Harvard Business School said, “We’ve had it brought home to us in the last few years that there have been relationships between banks and their affiliates which have militated against the best interest of the public. That many corporations of all sorts have failed to get the investing public a truer picture of their earnings as known only too well to many investors of very moderate means.”\textsuperscript{37}

It was on this that you saw business schools reflecting. The problem was that business schools were now in their weakest position to address this issue because most of them were tuition-based models and did not have large endowments. They were basically in survival mode. There was very little investment made at this point.

Then came World War II, during which essentially all the business schools were shut down because of the draft. The few that remained open were nationalized, like Harvard Business School and Wharton, and focused on officer training.\textsuperscript{38}

Out of World War II came the GI Bill.\textsuperscript{39} The GI Bill, as we know, guaranteed a college education to every individual serviceman.\textsuperscript{40} This cre-

\textsuperscript{35}. Id. at 46 (quoting Wallace Donham, The Social Significance of Business, in Dedication Addresses, 5 Harv. Bus. Rev. 406 (1927)).

\textsuperscript{36}. Id. at 149 (quoting Annual Meeting, 7 Am. Assoc. of Collegiate Sch. of Bus. Proc. 12 (1928)).

\textsuperscript{37}. Id. at 183 (quoting Annual Meeting, 15 Am. Assoc. of Collegiate Sch. of Bus. Proc. 245, 253 (1936)).


\textsuperscript{40}. Id.
ated a huge influx into colleges and graduate schools of GIs. Guess what the most popular major was? Business.\textsuperscript{41}

The quality of business education remained low, though, because the barrier to entry was very low. There were no expensive libraries or laboratories. Basically, you could just go out, find a local accountant or local dry cleaner, and have them teach the courses.

As a result, business education quality did not improve. The GIs then started complaining to Congress about that, so when Congress renewed the GI Bill and the Returning Reinvestment Act for the Korean War, they said that only accredited schools would be eligible.\textsuperscript{42}

During the 1920s, business schools formed the Association to Advance Collegiate Schools of Business (AACSB), which was originally a professionalizing school.\textsuperscript{43} They organized it a lot like a New England democracy: everybody had an equal vote.\textsuperscript{44} The AACSB changed its mission to being an accrediting institution in the 1950s in response to Congress’s requirement.\textsuperscript{45} Since the weaker schools did not want to be denied the spoils of the state, there was never a serious attempt to raise the standards.

From this vacuum eventually emerged the Ford Foundation.\textsuperscript{46} The Ford Foundation stepped in because they believed the weak quality of business education threatened the United States. They thought that poorly-trained managers would lead to a more radicalized workforce.\textsuperscript{47}

This happened during the McCarthy period in the 1950s, and business needed to be put on a more sound footing. There were a number of innovations that had been developed during World War II—computer, linear programming, and rational approaches to decision-making—which were then being imported to the Carnegie Graduate School of Industrial Administration with the thought that they would become the basis for the new model of business education.\textsuperscript{48} It was believed that we could not professionalize the students because we had not yet professionalized the faculty. The dominant idea was that we were going to take the faculty first and train them to be good researchers. We were going to train them in the quantitative methods and in the social science disciplines, particularly economics.\textsuperscript{49}

\begin{footnotesize}
\begin{enumerate}
  \item Id. at 212 (citing Frank Cook Pierson, The Education of American Businessmen: A Study of University-College Programs in Business Administration 7 (1959)).
  \item Id. at 213.
  \item Id. at 144–46.
  \item Id. at 223–28.
  \item Id. at 233–235.
  \item Id. at 235.
  \item See id. at 251–56.
  \item Id.
\end{enumerate}
\end{footnotesize}
There is a very particular perspective that economics brings to business. Interestingly, this was happening just as the idea that managers should have prerogative over what happens to the firm was becoming increasingly contested and delegitimized in the United States.\(^5\)

In the early 1970s, Milton Friedman published an article in which he argued that the sole legitimate purpose of the firm should be to maximize profits.\(^5\) This later became manifested and transmuted under Michael Jensen and Bill Meckling to the idea that the sole purpose of the corporation should be to maximize shareholder value.\(^5\)

It also coincided with a very significant shift in the nature of ownership and control in the United States, from which a re-concentration of ownership resulted. Re-concentration was not occurring among large aggregate trusts like the Standard Oil Trust, but rather among institutional investors who were increasingly arguing for more shareholder access, more say-on-pay executive compensation.\(^5\) This all began in the late 1970s and 1980s.

There was a shift from managerial to investor capitalism.\(^5\) The protagonist in the business school narrative of the story had always been the manager. The protagonist had held finance, technology, operations management, and organizational behavior together. Now that protagonist was lost. As a result, there is a basic breakup among the disciplines and abandonment of the general management theory of education, which has not yet been replaced with a different model about the purpose of business.

Michael Jensen and Bill Meckling, the authors of framing and the agency perspective, created a course that was first introduced at the University of Rochester in the late 1970s called Coordination, Control and the Management of Organizations (CCMO). The course diffused throughout all the major business schools within a five-year period.\(^5\) The CCMO favored a move away from the stakeholder’s social responsibility view of business to a shareholder maximization model.\(^5\)

They argue that the course was so powerful in creating a particular point of view that students found that CCMO challenged some of their deeply felt beliefs. “The course helped students,” Jensen argued, “to become more tough-minded and shifted them away from the stakeholder

\(^{50}\) Id. at 317–26.
\(^{53}\) KHURANA, supra note 16, at 303–04.
\(^{54}\) Id. at 297 (citing MARK J. ROE, STRONG MANAGERS, WEAK OWNERS: THE POLITICAL ROOTS OF AMERICAN CORPORATE FINANCE (1994)).
\(^{55}\) Id. at 322.
\(^{56}\) Id. at 323.
model of organizational purpose which was dear to the heart of many of our students."57 He went on to talk about how the course would eventually lead the students to the conclusion that

[T]he weakness of the stakeholder model is the absence of an overall objective function which implicitly or explicitly specifies the trade-offs from expenditures on various items. This in turn implies that the top managers of such organizations cannot be held accountable for the decisions, because without an overall objective function there is no way to measure and evaluate the performance. Managers are therefore left free to exercise their own preferences and prejudices . . . .58

What is interesting about this is that Jensen’s characterization between tough-minded ideas of shareholder value versus dear-to-the-heart ideas, like stakeholder models, rejects perhaps one of the most critical elements central to the profession: the sense of an obligation of the individual to work steadily and reliably at a calling and to rationalize discipline of all activity in service toward a higher end other than one’s own, which is really the sine qua non for what a definition of a profession is.

This last point is important because it describes the institutionalization of agency theory in the minds of students. It is the moment in which agency theory ceases to be a theory and actually becomes a phenomenological process by which certain understandings come to be taken for granted in a type of shared cognition that takes on “rule-like status in social thought and action.”59 In many ways, students, themselves, begin to dramatically change their views about the purpose of the management. This jumped not only to the academy, but also to how business leaders started their job.

Look, for example, at the Business Roundtable, and the mission of the Business Roundtable. They said the imperative of the directors was, prior to 1990, a stakeholder view.60 “The central corporate governance point to be made about a corporation’s stakeholders beyond the shareholder is that they are vital to the long-term successful economic performance of the corporation.”61 In 1997, the Business Roundtable lifted the language of Jensen and Meckling and said that the sole purpose of the corporation was to maximize shareholder value, leading to a dramatic change in executive compensation programs, the issues around what the purpose of management is, and what the purpose of directors is.

58. Id.
61. Id.
The Business Roundtable thus provides the cover, in many ways, for self-interested views. Jensen argued that there should be no purpose for managers to see themselves as professionals.\footnote{Khurana, supra note 16, at 317–18.} They should see themselves as the hired agents of shareholders.\footnote{Id.} Moreover, the particularized characterization of managers as self-interested opportunistic actors changed the students’ views about what it meant to be a manager.

There are a variety of other things I could talk about: how business schools came to see themselves as businesses, or how our students were no longer interested in managerial jobs but, instead, interested in individual contributor jobs and moving into investment banking and consulting.

In many ways, all of this really does call into question the ethical, normative, and professional obligations we have now inculcated into an entire generation—thirty years of students. Some of the consequences and behaviors that seem so irrational to the layperson are those in which they have been trained to see themselves.