

# With So Much Mayhem Caused by MBAs

## who needs business schools?

Both Satyam fraud and financial meltdown are the outcome of a common problem – a culture of excessive greed bred by business schools that focus primarily on “success at all cost” and “winner takes all”. What shocked the public and the investor consciousness most in the Satyam scam was not that the promoter embezzled a billion dollars, it was a deal involving of \$ 1.6 billion of Satyam shareholder’s funds to buy real-estate companies owned by the promoter’s son. This deal was passed unanimously by a board of directors that consisted largely of independent directors most of whom professed to be experts on Corporate Governance and some even taught this subject in the best business schools such as Harvard Business School in US.

In fact the financial wizards who invented the CDOs and CDO<sup>2</sup> and CDO<sup>3</sup> that created weapons of mass destruction and choked up the financial system were largely the brightest of the best business schools alumni. Talk to any business school graduate and see for yourself that the only goal for which a student joins MBA is to get the fattest pay cheque. Even the rating of business schools is measured not by the quality of their academic excellence but the salary and remuneration of its alumni on placement.

For the past 20 years business schools have become factories that churn out graduates who have spawned unethical practices for quick results and landed the global economy in the current mess. They legitimized a pseudo-scientific approach to finance that turned out to be bogus: they promoted a management style that was too mechanistic and deceptive. They perfected the art of HNTGC (How Not To Get Caught) to beat the system to drive short term results. They created a managerial elite more interested in quick rewards than producing lasting wealth for the economies they operated in.

The people who steered the global economy onto the rocks in the past year are products of these business schools. Richard Fuld, chief executive officer of Lehman Brothers Holding Inc. Which it collapsed, has an MBA from New York University. John Thain, the shamed CEO of Merrill Lynch, is a graduate of Harvard Business School. Christopher Cox, the former chairman of the Securities and Exchange Commission, has an MBA from Harvard University. And so does former US president George W. Bush.

Global meltdown has been caused primarily due to distrust of the market. Governments around the world are looking for ways to restore investor confidence. How can trust be created without transparency and disclosure? Transparency needs courage to own failures. Even today banks are shy of opening their books and admit the extent of their toxic assets. Postponement of AS211 to 2011 by India Inc. even after Satyam collapse shows we still have not learnt the lessons and continue to botox our revenues. Corporate Governance was designed to encourage transparency. Sadly it has become a victim of a culture of cosiness, concealment, conceit and corruption embedded in the boardrooms through the “old boys club” of MBA grads. That is why self-regulation did not work leading to calls for more regulation each time a scam surfaced.

Corporate Governance is not an issue of compliance of rules. Rules always encourage defiance. Corporate governance is a principled approach of steering a business that creates wealth for the society as a whole. It cannot be straight-jacketed into any law. That paradigm indeed has been its bane. We need to unshackle it and define it as principles of producing wealth. Principles encourage compliance. Principal-agent problem, the hall mark of corporate governance is endemic to all governance issues whether public governance, societal governance or political governance. Corporate governance consists of a set of voluntary processes, policies, practices which takes within in its ambit a whole range of stakeholder’s issues, business imperatives, market forces, social expectations, governance issues and therefore not just limited shareholder returns. It goes beyond customers, creditors, employee’s regulators. It touches every aspect of community and environment in pursuit of creating wealth for the corporation and society as a whole. For

corporate governance concepts to be embedded in the board rooms we need to train directors to become independent-minded and have courage and sense of ownership. They must learn and internalize a sense of corporate responsibility, accountability, transparency and integrity.

IOD has been engaged with boardroom issues through its Masterclass for Directors over the last 6 years. Thousands of directors have gone through its programmes. Through its interaction with boards all these years, it has come to the conclusion that boards have not had proper training in key issues like leadership skills, communication skills, ethical values, corporate accountability, self-awareness and independent mindedness. Boards do not really need independent directors. They need directors of independent mind. Our current management education has failed to create such directors because of its obsessiveness with short termism. We lack directors who have a long term vision, the courage to own the vision and problems associated with executing that vision and learning from failures. The very realization that a problem exists provides 90% of the solution. When the Carnegie and Ford Foundations unveiled their scathing critiques in 1959 of what was then the modern MBA degree, they made a serious impression on their intended audience. The top business schools scrambled to make the suggested changes in an effort to earn back a little respect from both businesses and critics at large.

In recent years, many critics have charged that business school education has fallen out of step with the needs of the 21st century corporation, that it fails to understand the global threat and has become more about club membership for future consultants than serious training for corporate executives. CEOs complain that MBA training has become too theoretical to be practical and that graduates are ill-equipped for the kind of leadership companies sorely need. Recruiters have gone so far as to suggest that an MBA could be a liability. Proliferation of MBA degrees, niche, have eroded standards and confused the value proposition. "In the elite business schools there is a de-institutionalization going on about the coherent body of knowledge required," says Rakesh Khurana, a professor at Harvard Business School and vocal critic of B-school education. "Because it's such an inchoate, ill defined degree, there is almost no standard by which one can accredit what a qualified MBA program is."

### **The challenge of teaching soft skills**

One of the most vexing challenges for business schools in recent years has been in the area of leadership. While traditional MBA programs were largely successful at minting managers for manufacturing operations, they've had a much harder time defining and teaching leadership skills in a post-industrial, knowledge-based society. In the modern corporation, leaders need both strong managerial skills and visionary leadership skills, says Allan Cohen, dean of Babson College F.W. Olin Graduate School of Business. "Leaders who don't understand how the organization works can't lead very well. Managers who don't have any notion of where they might be headed don't last very long anymore. And of course, it's very hard to teach this stuff," he says. The illusive softer skills in particular, such as listening, empathy, optimism, the ability to inspire, motivate and maintain personal relationships, are challenging to impart to students. "Self-awareness, for example, is a very important leadership skill. To what extent can you teach self-awareness in a classroom?" asks Jay O. Light, dean of Harvard Business School.

21st century demands teaching skills that embed students in an environment where they learn them from one another and from their collective experience. Soft skills can't be taught through traditional methods but they can be internalized by sharing experiences models. You can put students in role playing processes. You can have them lead each other, reinterpret their experiences before they got there, develop a cognitive understanding for them. You can do a lot that can help a lot. You have to look at leadership in large organizations and see how leaders take decisions, how they handle dissent, how they value diversity, how they encourage dialogues, how they disrupt coziness and how they deliver value to all the constituents.

Some business schools have already begun to change their curriculum. The most sweeping change over the past year has been the introduction of a brand new curriculum at Stanford University's Graduate School of Business. Developed after four months of intensive research and unveiled last fall, the new program departs from the traditional silo approach--core course requirements in first year and electives in second--and replaces it with a tailored approach based on prior education, work experience and individual goals.

It focuses more deeply on leadership and communication skills "and what does it mean to play a role and change an organization for the better," says Dean Robert Joss. "We're doing a lot around leadership and what that means, role-playing and experiential learning." In new, day-long leadership labs, for example, alumni volunteers play the roles of board members or top executives in an "executive challenge." Students then negotiate with them to tackle challenges and devise solutions. "It's this sort of exercise we're trying to do more of because it gives people a head start in realizing that their management of themselves and relationships to other people is just as important as tackling the task analytically." Students will also delve into critical analytic thinking, which Joss believes students no longer get sufficiently as undergrads. In small seminars, students will examine issues that transcend individual functions and management disciplines, such as corporate social responsibility and ethics.

Columbia Business School also made additions to its two-year MBA program in response to feedback from recruiters, who said graduates lacked critical social leadership skills. The new Program on Social Intelligence combines assessment tools to help students see themselves more clearly, along with experiential learning and role-playing techniques to teach them how to harness their own and colleagues' skills and assets. At University of Chicago, the Graduate School of Business's LEAD program has emerged as the only required element of the MBA curriculum. Designed to provide both leadership experience and feedback on interpersonal skills, the LEAD program assigns second-year students to teach and coach first-year students in a series of modules and classroom sessions covering topics such as leadership research, interpersonal communication activities, team dynamics and conflict management. "The notion that you can teach leadership and good teamwork in a formulaic way is probably wrong," notes the school's dean, Edward Snyder. "But you can create an environment where people are challenged. And if you can dispel the idea that hierarchy should drive decision-making and put in its place the view that everybody's responsibility is to make the best provisional idea better, that to me is very powerful."

Along with expanding their leadership lessons, business schools are exploring ways to bring theory and practice closer together. At University of Michigan, for example, Robert J. Dolan, dean of the Stephen M. Ross School of Business, is working hard to establish Ross as the school for action-based learning. "The idea is to try to do the training in typical MBA analytical methods, but also bridge that from the world of academia into the world of practice as part of our academic program, rather than say, 'You'll have a chance to apply this once you go off and have your job,'" he says. Dolan, who spent 21 years at Harvard Business School and, prior to that, four years at the University of Chicago Graduate School of Business before taking the helm at Ross, agrees that leadership is hard taught in the classroom, "which is one of the reasons we get out of the classroom as much as we do."

Corporate governance is not simply a stand alone subject. It is no longer just an issue of statutory compliance. It is an instrument for social and economic transformations. It is the only way a business can be managed to fulfill aspirations of society as a whole in a sustainable manner. It is for this reason that IOD has decided to establish a University to educate all directorial issues. This University would impart educational programs tailor made for directors, focusing on building ethical values, strengthening moral compass, art of governance as the approach to management, social accountability, environmental responsibility and inculcate skills to engage with business, community and environment at all levels for holistic development.

It will have separate faculties for leadership, communication skills, corporate finance, corporate law, corporate accountability, environmental governance, managing innovation, managing behavior change, entrepreneurship, natural capitalism, fiscal governance balanced scorecard and enterprise governance. The faculty will be drawn from the best business schools and industry to develop a holistic and integrated outlook to enable alumni to make a real difference by driving the social and environmental agenda to create sustainable wealth.

\*Dr Madhav Mehra is founder President of World Council for Corporate Governance, UK