

# *The 21<sup>st</sup>-Century MBA*

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Thank you for giving me this chance to address so many colleagues who share the joys of being a business school dean—and who feel my pain! I am especially grateful that in this city of so many entertainment choices and afternoon lounge acts, you chose to hear me ... when you could have gone to see Wayne Newton....

This group is meeting at a time when there is a widespread appetite to ask some very basic questions: What constitutes excellence in business education? How do we instill it? Above all, what is the *value* of what we do? Today's talk is the third in a series of commentaries on this topic that began with my Columbia University Lecture on May 9, 2006, and continued with an article entitled "The Productivity Riddle" in the Winter 2006 issue of *Strategy + Business*.

## **Are We Adding Value?**

As an economist, estimating the value of something is second nature to me. I still have to say, I was surprised that one of the first and biggest challenges of my new job as Dean of Columbia Business School would be to defend the value of the university-based business school and even business education itself.

I had thought—naïvely—that it was fairly obvious.

Let me share a critique from Anita Roddick, founder of the Body Shop. Anita is not a scholar of business. She is an entrepreneur—*par excellence*. Starting out in the retail business, Anita Roddick could find only green paint to cover the damp, moldy walls of her first shop.

Today, Ms. Roddick's distinctive green stores are a global icon, with almost 2,000 stores in 50 markets.

Anita Roddick had this to say to *The Financial Times*: "I often get asked to talk about entrepreneurship—even by hallowed institutions...—but I am not at all convinced it is a subject you can teach. How do you teach obsession—because often it is obsession that drives an entrepreneur's vision?"

She goes on to add, "The problem with business schools is that they are controlled by, and obsessed with, the *status quo*. They encourage you deeper into the world as it is. They transform you into a better example of corporate man." Business schools are, Anita Roddick says, "the whited sepulchers of the *status quo*."

Another vein of criticism comes from academic quarters. Henry Mintzberg of McGill has a few tidbits that I'd like to share. The MBA degree, he says, is "supposed to be about leadership. You can't create a leader in a classroom."

Or consider his criticism of the case-study method: "Give me 20 pages and an evening to think about it," Professor Mintzberg says, "and I'll give you the decision tomorrow morning. It trains people to provide the most superficial responses to problems, over and over again getting the data in nice, neat, packaged form and then making decisions on that basis. It encourages managers to be disconnected from the people they're managing."

That's what Mintzberg says. I'm afraid I don't agree.

Much of this criticism, from respected people, deserves to be taken seriously. The value of business education, after all, is a very serious social issue. And it is a global one. Hundreds of accredited U.S. universities offer business degrees, with many in Europe—even at classically minded Oxford and Cambridge—and more emerging throughout India and China.



## **Can We Take the Heat of Criticism?**

A business school is meant to be a kind of gymnasium where people build up their mental calluses through constant criticism and close evaluation. The last thing business schools should do in the face of criticism is react defensively, like a long-protected guild astonished that anyone would question our dealings.

First, it deserves to be said that there is a ring of truth to both sets of criticisms, that of the entrepreneur and that of the academic critic.

From its inception, the business degree has been a balancing act between practice and theory. It attempts to reduce the management of business to a set of identifiable, teachable principles without letting that effort degenerate into abstractions. It tries to impart useful skills, while grasping the big picture.

Sometimes, we lose that balance.

Sometimes, we are too process-oriented, too credential-oriented, and too enamored of our pet theories to notice their tenuous connection to the “real world”—the product of what one B-school critic calls “physics envy.”

Still, my biggest takeaway from these criticisms is not that they expose failings or weaknesses of our programs, but rather that they point to what truly is our central shortcoming: That we have collectively done a poor job of communicating how well our business programs have adapted and advanced over the past twenty years—and especially over the past five years. To me, these criticisms reveal a lack of understanding of *how* we have changed and what we are doing to educate our students to excel in the 21st century business world. Somehow, we have not shown the business community—and even our fellow academics—the substance of management education in the new century.

## **Entrepreneurial and Management Mindsets that Matter**

Jeffrey Pfeffer and Christina Fong sparked intense debate with their 2002 article, “The End of Business Schools? Less Success Than Meets the Eye.” While he remains somewhat critical of the MBA degree, Jeffrey Pfeffer has more recently written that: “a number of curricular reforms have also addressed the disconnect in the classroom between knowledge (knowing) and the application of that knowledge (doing).”

Business education in the 21<sup>st</sup>-century, and especially the MBA program, *has* changed. It has changed because the business world has changed. Those of us who are marketing experts might say that the business world is more decentralized. It is fiercely entrepreneurial. And it is relentlessly global. But there is real substance behind these claims, and that is what we must communicate to the “outside world.”

The late Peter Drucker once compared the impact of the computer revolution to the age of the railroad. Like the railroad, computers did more than create new economic dimensions. They rapidly changed what Drucker called our “mental geography.”

Twenty-first-century business education is suddenly, of necessity, rooted in global realities, with mental geography that spans from New York to São Paolo, to London, to Mumbai, to Shanghai. Less obvious is the way in which the changing world economy has forced the MBA to be global in another sense: that of dealing with a universe of business issues.

The postwar MBA was designed to mint managers for large organizations. We were, not unlike Anita Roddick’s description, schools that prepared mostly men to snap into well-defined positions with well-defined sets of expectations in Fortune 500 corporations.

But that has all been blown apart, of necessity, along with the stable, lifelong Fortune 500 job. The gales of creative destruction have long since ripped away the comfort and security of a management job, and with it, any sense of complacency that might have existed in the B-school.

But there is also new opportunity – the nondestructive creation of new ideas and markets. Today, whether you are part of a startup, creating your own company, or working for AT&T in San Antonio, being entrepreneurially minded is a critical skill. You had better be adept at working in a decentralized organization, one in which responsibilities come with the need to solve a problem, not with the need to protect turf and title.

In this new environment, entrepreneurs and entrepreneurially minded business leaders are successful not because they set an unchanging goal and then labor to achieve it. Rather, they succeed as agile seekers looking for many different ways to identify and capture opportunity. Great business schools *focus* these seekers of opportunity. The abilities to think strategically and to value opportunity are teachable, and business schools' connection between research and industry offers precisely the right classroom.

Now, let me ask: Is there proof of value in my last statement? Researchers for the Graduate Management Admissions Council surveyed thousands of graduates, finding that the ten-year annualized average return on investment for MBA students ranged from 12 to 20 percent.

Other concrete, measurable benefits of business education have been studied by researchers at our own institutions. As far back as the early 1960s, a small group of economic historians, including Alfred D. Chandler Jr. and David Landes of Harvard, pointed to professional management as a key factor in the rise of U.S. industry relative to that in France or the United Kingdom in the early 20th century. Business schools, meanwhile, worked to identify the sources and examples of high-quality management practices, while consulting firms conducted *de facto* “on-the-ground” experiments implementing particular management innovations.

If one looks with a microeconomic eye at the behavior of individual firms, it is fairly obvious that some gain in productivity consistently while others do not. Recent research by economists Nick Bloom of Stanford University and John Van Reenen of the London School of Economics found that in a knowledge-intensive economy, firms with better practices for process techniques, goal setting, performance evaluation, and human resource management exhibit generally better performance. Their research further suggests that variation in *management quality* explains much of the differences in firm-level productivity. Such a striking correlation between management quality and productivity points to the development of management practices, the choices that managers make about practices, and the value of managerial talent in executing these practices—all concepts taught in our business education programs.

Or just survey the many individual MBAs who have applied their skill at recognizing and seizing opportunity—a core component of entrepreneurship and business training—to effect real change within the business world. Tom Stemberg, Harvard MBA '73, opened the first Staples store in Brighton, MA, in 1986; today the company is the world's leading seller of office products. Or take Jack Creighton, University of Miami, MBA '66, who, after leading three Fortune 500 companies decided, at the age of 73, to lend his expertise to Intrepid Learning Solutions, described by the *Seattle Times* as being “on the frontlines of a silent revolution in the way companies train employees (*Seattle Times*, 12/7/2005).” And then there is the incomparable Warren Buffett, Columbia, MBA '51, whose personal approach to the value investing techniques he learned at Columbia from then-faculty members Benjamin Graham and David Dodd has earned him a place among the greatest business minds—and philanthropists—of our time.

Consider, too, the impact of the MBA on venture capital, leaders who direct R&D in high-tech, biotech, and other “breeder” industries that give birth to whole new sectors of business

and commerce: Fully three-quarters of the top 25 venture capitalists on the *Forbes* Midas list have MBAs.

### **Experiential Learning is Alive and Well...**

In thinking about 21st-century business education and experiential learning, I came across a quotation that seemed to strike at where we are now. It comes to us from across the centuries, from the very man whose name is splashed all over this casino establishment—*Julius Caesar*.

Now, of course, Caesar had his failings as a manager....

Some said he could be a little, well, imperious.

His concept of downsizing, by contemporary standards, was somewhat extreme.

And he mismanaged expectations so badly, that at the end of his career he suffered a stakeholder revolt—and they were holding literal stakes.

Nevertheless, I like some of what Caesar had to say. And I believe it tells us a lot about what we are trying to do with the 21st-century MBA.

Caesar had one of the best educations the classical world could provide. And yet, he said: “It is better to create than to learn. Creating is the essence of life.”

Think about that: It is better to create than to learn. It is better to make something than to know something. I like this statement because, for all its ardor and certitude, it contains within it many rich questions.

Isn't it necessary to learn before one can create?

Isn't creating the ultimate form of knowing?

And above all, isn't learning itself best done in the act of creation?



Increasingly, the act of creating—of helping real businesses, helping business owners make consequential decisions, even starting one’s own business—is integral to earning a business degree.

This, in a nutshell, is the emphasis of *today’s* business school. We have changed from a reliance on imparting a set of functional silo skills in marketing, finance, and management, to honing the skills of entrepreneurially minded people. Anita Roddick is right—you can’t impart obsession in the classroom. But you can hone skills and teach people to think entrepreneurially.

The goal is not to have a data dump of functional skills, but to create a process that teaches people how to recognize opportunity—and capture it.

Such an approach is the only way to prepare people for the changing nature of the career ladder. After all, our MBA graduates can now become senior managers in five to eight years, and we send our undergraduates into the business world similarly prepared for lightning-fast advancement. This necessarily means a greater focus on leadership skills and entrepreneurial thinking. We cannot hover over their shoulders; they must leave our schools with the right habits of critical thought, with the skills to build and lead teams, to work in borderless environments, without organizational silos and, often, without national identities.

Global markets and emerging-economy opportunities mean that students must have a firm understanding of cross-cultural teams and their different approaches to risk management. Contrary to Professor Mintzberg, I believe leadership *can* be taught in the classroom, provided that classroom is engaged in *creating* and *doing* as well as instruction.

Take one key attribute of leadership—intuition, one part of the creative process that many believe cannot be taught. Is this true?

As a student, you probably learned the story of Archimedes and how he discovered, more or less by accident, that he could accurately measure the volume of a crown of suspect

composition, and thereby determine whether it was pure gold. I can remember my own sixth-grade teacher asking whether anyone could tell her what happened when the great man he eased himself into a full bath. I know what many of you are thinking: The telephone rang. In fact, what he noticed was that the water in his bath overflowed, which led to the “aha” insight of measuring the volume of irregularly shaped objects by water displacement.

Many believe that this sort of genius must be in-born. Once again, I cannot agree.

Genius or not, two important factors prepared Archimedes in such a way that the outcome of his famous bath could not have been different. He, like Julius Caesar, had the benefit of the very best possible educational foundation, one that provided a balance of mental discipline, critical thinking, and openness to opportunity. Moreover, he thought obsessively about his problem: There is no doubt that he had it kicking around his subconscious as he lowered himself into an overfull bath. When water splashed out onto the floor, he was mentally prepared to connect an innocuous, perhaps even annoying, spill and the breakthrough concept of measuring volume by water displacement.

There is an implicit lesson in this story about business education, as well. None of us here today expects our students to graduate from business school and walk into a job that immediately asks them to draw upon every skill they acquired or refined in our programs. What we can anticipate, however, is that every one of our students will someday face a complicated decision in their careers that will challenge them beyond all expectations. They will deliberate, they will ponder, they will contemplate. And in that moment of truth, they will be open to a level of awareness and insight that would be unavailable to them were it not for the sum total of their business education and experience.

Let me revisit our friend Anita Roddick, who talks about obsession this way: “Be an opportunistic collector. When entrepreneurs walk down the street, they have their antennae out,

evaluating how what they see can relate back to what they are doing. It might be packaging, a word, a poem, or something in a different business.”

The faculty at our schools already have a deep interest in how this works. One of my Columbia colleagues, Amar Bhide, says: “Rather than give people [just] a theory, I emphasize moral challenges of developing your own worldview and theory. I think what is distinctive about the course I teach is that the unit of analysis is the individual rather than some abstract right answer.... When I confront a new situation, how do I draw from my library of previous observations to find a rule that I can then apply to the current situation?”

Another colleague, William Duggan, draws on military history, psychology, and neuroscience to actually teach strategic intuition. He refers to Napoleon’s *coup d’oeil*, that quick glance with which the general would instantly assess a challenge on the battlefield.

Such an ability may seem inherently unteachable—again, an inborn trait of a genius, whether it be Archimedes, Napoleon, or Roddick’s entrepreneurial outsider. In fact, Duggan believes that we can be *taught* to bring to bear all our learning and intuition to instantly size up all sorts of problems.

### **...And Social Intelligence is a Key Component**

“Social intelligence” is another ability that some say cannot be taught. The concept of “social intelligence” as distinct from general IQ was actually born on the Columbia campus, the brainchild of psychologist Edward Thorndike, who studied under William James. It was Thorndike who first noted in 1920 that “the best mechanic in a factory may fail as a foreman for lack of social intelligence.”

Since Thorndike coined this term, social intelligence has been validated by research conducted at our schools. Management studies show that a team’s success or a product or

service's appeal to consumers can rest on whether people believe they have been fairly treated. Moreover, the way people evaluate fairness varies greatly across cultures.

Neuroscience research has also begun to map out the brain regions that regulate social interactions, showing that the way in which we assess feelings and make social judgments involves different brain structures than those used to solve an abstract puzzle.

The fast, decentralized nature of modern firms means that such social intelligence is required in a manager's career from the get-go. The importance of social intelligence is especially evident in relationship-based professions like investment banking and in business communities made dynamic and diverse by waves of immigration. Like Thorndike's factory foreman, the young manager will succeed or fail to the degree that he or she is able to motivate, empower, and lead colleagues and partners around the globe.

In the Program on Social Intelligence at Columbia Business School, Professor Michael Morris draws on the School's expertise—and business research—in psychology and related social sciences to ensure that students are trained not only in quantitative skills, like value analysis, operations management, and managerial statistics, but also the softer side of management and interpersonal interaction. The Program's activities are grounded in proven combinations of empirical assessment, experiential learning, and executive coaching to help students sharpen their self-awareness, judgment, and decision-making.

We do not—and could not—teach such material out of a book, but teach it we do. Experiential learning is a new hallmark in MBA programs across the country, and Program on Social Intelligence fully embraces the “learn by doing” approach. Our students are put through their paces and leave the School knowing what drives the behavior of individuals, teams, organizations, and networks.

It may come as a surprise to our critics that we have, in fact, moved gradually but steadily away from the dry case studies, the biographical and war-story pedagogy with which they find fault. We weave active, project-based learning throughout our programs—preparing people by having them *do, decide, and create*.

But Columbia and others of us are also combining experiential learning with highly sophisticated, nuanced group work and increased contact with the business world. Columbia has developed a “Master Class” model for project-based elective courses for second-year MBA students that are co-taught by a Business School faculty member and a business practitioner. The courses are designed to challenge students to *integrate* concepts they learned across the School’s core curriculum to actual business problems and to make hard-and-fast managerial decisions. Students’ strategic recommendations are carefully evaluated—and in many cases implemented—by partner businesses.

I am happy to report that the essential principles behind the Columbia’s Master Class program are already in practice at other AACSB schools: the Field Study Program at UCLA’s Anderson School of Management and the Multidisciplinary Action Projects at the University of Michigan’s Ross School of Business share a focus on experiential learning and bridging classroom theory with workplace practice. The same teaching techniques could easily be scaled and modified to accommodate an undergraduate-level elective.

### **Ideas Still Matter**

Faculty members at our schools help to drive this evolution *outside* of the classroom as well. But we can continue to inspire our researchers to be in close contact with business leaders, to answer practical questions for the rigorous and vigorous scrutiny of real-world application.

By generating cutting-edge ideas, a great business school's research offers significant economic and social returns.

Faculty contributions have enabled our business schools to take a front-and-center role within the larger university setting and the business community for good reason: Top business schools have integrated social science and other research very well, and interdisciplinary understanding and collaboration is often more common in the business school than across disciplines within the arts and sciences. So many business innovations have been led by researchers trained in a particular discipline (economics, for example), but with a cross-disciplinary discussion that was more natural and more encouraged within a business school. That cross-disciplinary intellectual conversation has stimulated innovative teaching in finance, consumer behavior, business decision-making and negotiation, and strategy, among other areas.

### **Business Is Social Development**

The thing that is most different about 21st-century management education is the conviction that business not only has an obligation to promote social development—*business is social development*.

No one has been more eloquent on this point than we have in the AACSB. In our “Peace through Commerce” Task Force, we wrote: “The issues are not about philanthropy—where the generosity of business has often been extraordinary—or about making ‘the business case’ for corporate social responsibility. The fundamental point seems to be that almost everyone engaged in commerce prefers a peaceful environment in which to conduct their business, and that business has the power and the responsibility to give back to the societies that enable their success.”

We went on to quote Montesquieu, who said: “Commerce cures destructive prejudices. It polishes and softens barbarous mores. The natural effect of commerce is to lead to peace.” And, I would add, social progress.

The 21st-century business school graduate is concerned with eradicating poverty with the most powerful foreign aid program ever devised—investment—and entrepreneurship.

The 21st-century business curriculum doesn’t just *include* entrepreneurship: It *requires* it. Our students learn entrepreneurial creation in new ventures, in large organizations, in private equity financing, and social entrepreneurship. They work in labs, in consultation with faculty members, venture capitalists, and successful entrepreneurs. They develop business plans, build financial models, and structure deals in entrepreneurial finance.

Many Columbia Business School students participate in our Entrepreneurial Greenhouse Program, an incubator that gives students the chance to pitch their business plans to professional investors and provides prelaunch funds to selected projects. Other students work in a highly interactive program that uses videotaped role-playing exercises to hone skills in entrepreneurial selling. Still others seek seed funding from the Eugene Lang Entrepreneurial Initiative Fund, which provides up to \$250,000 in seed funds for students with a business plan as solid as their vision is grand—like Dawn Sanders, a 2004 graduate who opened the first day-spa in East Harlem with \$30,000 in seed capital, only to break even in her first three months.

Ron Gonen, another 2004 graduate, founded RecycleBank, which offers financial incentives to households to recycle and makes a profit by collecting a percentage of the landfill fee savings the program helps generate in each community. Ron says: “The [Entrepreneurial] Greenhouse Program is a notch above anything that anyone can expect to get out of any academic experience....” And the Greenhouse Program chose well – by the end of 2007, RecycleBank expects to service more than 250,000 homes.

Not only is Columbia proud to have invested in a company that is promoting the environment, sustainability, and economic development, but the astonishing return of 1,500 percent on our seed investment over two-and-a-half years provides fuel to support still more entrepreneurial ventures that have the potential to generate economic growth.

We didn't merely teach Dawn or Ron a module on entrepreneurship. The goal was, and is, to instill a lifelong habit of critical thinking—to help leaders recognize opportunity, and capture it. And graduates of all of our institutions are bringing these entrepreneurial habits-of-mind to large organizations, as well, from Goldman Sachs to Citigroup, and to the battleground for hearts and minds in Iraq.

There is a strong link between what we teach in entrepreneurship and social entrepreneurship. We help students understand how to organize, finance, and support new enterprises in emerging markets in Africa, Latin America, and Asia. All of our students have taken the lead in bridging the gap for equity capital targeted at small businesses in the developing world. One recent Columbia graduate, Ben Powell, has started the Agora Fund—a new kind of NGO that serves as an incubator that invests in small and medium-sized businesses in Latin America.

While multilateral lending institutions began to appreciate the importance and effectiveness of the micro-finance philosophy during in the late 20th century, MBAs like Ben understand the value of supporting entrepreneurship at all levels. Loans like the ones the Agora Fund makes seed developing economies with powerful little engines of growth and represents the best and truest form of economic aid for the 21<sup>st</sup> century.

And so all of our schools teach social entrepreneurship and seek to train our students to apply entrepreneurial business principles to provide social benefits in environment, workforce development, education, health, and community and international development. We teach people



how to launch or manage social ventures, always challenged by exceptionally tight resource constraints. We prepare our people to also be effective board members and advisors of non-profit organizations.

In short, we believe business is a social good, without which nothing else would be possible. The business school graduates of this century are going to be a powerful force in driving investment, knowledge, and rising standards of living to those who need it most. As the dean of a school in which our graduates do exceptionally well starting out, I can say without sounding defensive that what matters most is not the change jingling in their pockets after commencement, but the change our students make in the world.

### **A Story to Tell**

In describing 21st-century business education, I have spoken about programs at Columbia. But the same could be said of the many programs represented in this room.

Business education is as different today from that of the past century as the unique and astonishing skyline of this city of Las Vegas is different from that of the days of The Sands and the Rat Pack. We have done many things—and we have mostly done them right—except for one glaring omission.

We have not told our story.

We have undertaken the hard and ongoing work of change. The way in which the world conducts business is always evolving, and so too are our programs of business education. But we have not undertaken the comparatively easy task of letting the business world, the business press, and even, in some cases, our own alumni see how we have embraced experiential learning.

As soon as we leave this conference, the challenge before us is to *get the word out*. Now.

Telling our story is the next thing you and I must change.

Thank you.

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