Do not undervalue the impact of business education

Published by the Financial Times on June 29, 2006
By Glenn Hubbard

I expected many surprises as the new dean of a business school, but not an immediate challenge to defend the idea of business education. Until my appointment, I had seen no reason for such challenges. Do business school graduates lead? In my previous job, I gave economic advice to a Harvard MBA who now happens to be the US president. I have also seen venture capital leaders spawn new industries - and most of them have MBAs.

What is not to like?

A tough take on business schools came in a 2005 Harvard Business Review article by Warren Bennis and James O'Toole saying that “MBA programmes face intense criticism for failing to impart useful skills, failing to prepare leaders, failing to instill norms of ethical behaviour - and even failing to lead graduates to good corporate jobs”. In business circles, this is shocking - something like L'Osservatore Romano asking: do we still need a pope?

Such criticisms should be taken seriously. Pure theory pulls the academy apart from the worlds of commerce, industry and finance. And if the MBA does not at least cultivate leadership, what good is it? It is in the face of these challenges that we need to assess the value of business itself, and then the study of its principles. It is such a humdrum word for such a revolutionary idea - applying scientific management and critical thought to everyday economic and social activities. We are so enmeshed in a world shaped by business principles that only the big picture can remind us of its power.

For example, why did social conditions not change for the human race for thousands of years until England's industrial revolution in 1750? Why did that revolution begin with the Spinning Jenny in the mid-18th century and not in the mid-first century AD when Hero of Alexandria developed a steam engine? Columbia Business School's Bruce Greenwald says that human progress “appears to have arisen largely from the application of sustained management attention to everyday enterprise”.

In a word, business. Understanding the role of business and business institutions in prosperity is surely a good complement to the Buffett-Gates emphasis on social transformation of the poorest nations through medical advances.

Countries today prosper or fail to the extent that they embrace basic business principles. The task of the business school is, then, enormous - to apply knowledge to transform financial markets, to convince other societies of the benefits of transparency and to remind our own opinion leaders of the value of basic business principles. We have largely succeeded in the US, which is seeing sustained increases in growth of about 3.5 per cent a year with little inflation - a full percentage point above what economists once thought possible. This one percentage point addition to growth is happening not because the US economy is supplying more labour or capital but because of improvements in productivity.

Why, then, is the US adding productivity growth when so many other big economies see negative growth in productivity? Those who say the answer is technology have spent too little time in Tokyo, Seoul and Berlin. The fact is, technology is better in many other countries. So US companies did not become more productive by simply buying faster computers. They became more productive by having managers and entrepreneurs who knew how to integrate these investments with new business models to raise productivity. These abilities to think strategically
are teachable; and the central classroom for teaching leaders to “pick these locks” is the business school.

Many measure success by the salaries of business graduates after school. This is irrelevant. The real value of a business education is its impact years later, training future leaders how to unlock one set of problems after another. Business schools have pulled this off by integrating disciplines within the university and integrating academics with business leaders.

But the critics have a point. The present challenge for the top business school is to inspire researchers to be in even closer contact with business leaders, to answer real-world needs. By generating cutting-edge ideas that bridge theory and practice, a great business school’s research offers an education for a lifetime career, not just a toolkit for a first job. In this way, through ideas and graduates, business schools can be growth’s lobbyist and a driver of the continuing revolution.

The writer, dean and professor of finance and economics at Columbia Business School, was chairman of the council of economic advisers under President George W. Bush 2001-03