

# The Business of Business Schools

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## Restoring a Focus on Competing to Win

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As business leaders worry about the decline of American competitiveness, business schools are responding by changing their curriculums. But are the topics and approaches taught in today's business schools part of the solution or part of the problem? In this paper, I explore the possibility that four trends in current MBA curriculums—theory creep, mission creep, doing well by doing good, and the quest for enlightenment—are teaching students to be uncompetitive in today's global markets. If this hypothesis is true, I argue that business school curriculums should be re-centered around the tough choices needed to compete—and to win.

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There has been a surge of interest lately about the urgent need to reshape American business schools. Recognizing that the current business school model is based on 1950s design concepts, an increasing number of scholars are advocating fundamental changes in how MBA students are taught in graduate schools of business. Their arguments are consistent: business schools are teaching students the wrong things in the wrong way (Datar and Garvin, 2010; Mintzberg, 2005; Bennis and O'Toole, 2005).<sup>1</sup>

At the same time, there has been a lot of handwringing in the business press about the declining competitiveness of American firms and industries. As the United States' 2010 trade deficit surpasses \$500 billion, The World Economic Forum downgraded the competitiveness of American businesses for a second year in a row, from second to fourth place. The flight of American jobs, coupled with the enhanced capabilities of emerging markets to compete in industries ranging from autos to wireless electronics, has put American business leaders and policy makers on the defensive.

Are these two phenomena related? Does the decline of American competitiveness have anything to do with what business schools are teaching? In this paper, I argue that it does. Without realizing it—or intending to do so—business schools may be teaching MBA students to be uncompetitive in today's increasingly competitive global marketplace. If so, this is not a problem of bad intentions or incompetence. It's a story of good intentions gone awry.

The paper is divided into three parts. In the first section, I develop the key assumption that the fundamental goal of business is to compete to win customers and investors. Next, I catalogue the initiatives currently in vogue at U.S. business schools that may be either diverting attention from competing to win or undermining the ability of students to compete effectively. I end the paper by offering a framework for designing winning organizations—one that, I believe, should be adopted by business schools interested in improving the competitive capability of future business leaders.

My intention is to provoke debate and reflection. Many of the positions that I argue are not only uncomfortable, but fundamentally at odds with the *zeitgeist* of modern business schools. Moreover, I recognize that my interpretations and conclusions may be incorrect. And, in many ways, I hope they are.

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<sup>1</sup> Srikant Datar, David Garvin, and Patrick Cullen, *Rethinking the MBA: Business Education at a Crossroads*. Harvard Business Press, 2010; Henry Mintzberg, *Managers Not MBAs: A Hard Look at the Soft Practice of Managing and Management Development*. Berrett-Koehler, 2005; Warren Bennis and James O'Toole, "How Business Schools Lost Their Way," *Harvard Business Review*, May 2005, 96-104.

### *Part I. – The Business of Business*

There is a longstanding debate about the role of business in society. In 1970, Milton Friedman wrote a widely-cited—and widely-criticized—article in *The New York Times* titled, “The Social Responsibility of Business is to Increase Profits,” or, as it is often paraphrased, “the business of business is business.”<sup>2</sup>

Friedman’s argument rests on the now-familiar themes of agency theory in which executives are the agents of shareholders and have a fundamental obligation to maximize profits for the benefit of those who hired them. To Friedman, any diversion of shareholder money to “social responsibilities” adversely and unjustly affects the owners to whom managers owe their allegiance.

In Friedman’s analysis, the diversion of corporate resources for social ends is a pernicious tax, the proceeds of which are allocated according to the unreliable whims and preferences of individual executives. He argues that this practice is fraught with danger since executives charged with this duty have no special expertise in allocating resources to achieve social ends, whether reducing poverty, fighting inflation, or enhancing the environment.

He further criticizes the process by which this misallocation of resources occurs as undemocratic: driven by activists who, unable to achieve their ends by legitimate political process, attempt to bully or embarrass stockholders (or customers or employees) into contributing resources to the various causes favored by activists.

Friedman widens his indictment of corporate social responsibility by arguing that this misguided diversion of resources—“spending someone else’s money”—can have equally adverse effects on customers, who may be forced to pay higher prices to fund these social initiatives, and on employees, who may face lower wages as a result.

Friedman concludes that the concept of “corporate social responsibility” is illegitimate. Instead, he argues, responsibility for social causes and societal wellbeing should be reserved for individuals who are free to use their own money as they see fit to support causes of their choosing. (e.g., Warren Buffet can freely choose to give his own money to charity or support other social causes, but executives of Berkshire Hathaway should not assume rights to give away shareholder money.)

Most people are uncomfortable with Friedman’s analysis. A different, and more popular, view is espoused by John Mackey, CEO and founder of Whole Foods. Mackey argues that the executives of corporations should assume responsibility for creating value for all stakeholders affected by a firm’s actions. Mackey follows this reasoning in his own firm by insisting that

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<sup>2</sup> Milton Friedman, “The Social Responsibility of Business is to Increase its Profits,” *The New York Times Magazine*, September 13, 1970.

executives measure their success in creating value not only for investors, but also for customers, employees, vendors, communities, and the environment.

Moreover, in reversing the causality of agency theory, Mackey argues that entrepreneurs who run a business have “the right and the responsibility” to define the purpose of their company and its desired relationship with various stakeholders. When asked about a special duty to shareholders, Mackey claims that his company “hired” its original investors: “They didn’t hire us.”<sup>3</sup>

The divide between the “business of business is business” view espoused by Friedman and free-market advocates and the “stakeholder/social responsibility” view advocated by Mackey and many others seems wide and unbridgeable.

But there is one key point on which both sides agree: if shareholders and customers don’t like the choices that company executives make, they can—and should—pack up their bags and leave. Shareholders can sell their equity positions and reinvest in companies that focus resources exclusively on creating shareholder value; customers are likewise free to buy goods and services from companies whose values and choices reflect their own.

Such choices by customers and investors underlie all market-based competition. And competition—for customers and capital—is the foundation of both our economic system and our economic success.

Following this line of reasoning, the analysis in this paper is based on the assumption that competing is the essence of business. And, in any competition, the ultimate goal is to win. Companies that prevail over time will be those that make better choices than competitors: choices that create superior value in the eyes of customers and owners.

### *U.S. Competitiveness Under Attack*

Winning has become more difficult in today’s hypercompetitive global markets. Competition is rising at all levels—notably from companies in newly-ascendant emerging markets—where managers are building capabilities to compete in industries where American firms once held unassailable advantage.

China, for example, today provides the technology for manufacturing iPads and commercial jetliners. It is now the world’s largest producer of coal, steel, and cement and manufactures two-thirds of the world’s copy machines, microwave ovens, DVD players, and shoes.<sup>4</sup> With the aim of becoming the world’s civil engineer, the country successfully won the

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<sup>3</sup> “Rethinking the Social Responsibility of Business,” *Reason*, October 2005.

<sup>4</sup> Fareed Zakaria, *The Post American World: Release 2.0*. Norton, 2011, p. 104.

contract to build the San Francisco-Oakland Bay Bridge. Modules half the size of football fields are currently being constructed in China and loaded on giant ships for transport to the United States.<sup>5</sup>

China is not alone. The capitalist spirits unleashed by entrepreneurs in India, Brazil, Russia, South Africa, Vietnam, Korea, and many other emerging economies are making businesses in these countries increasingly competitive.

**Table 1** illustrates the relative changes by country in one measure of competitiveness—share of global operating income—between 1995 and 2010. Eight of the ten industries reported in the table show a significant rise in the fortunes of foreign competitors, with a corresponding loss in American share. The relative change is dramatic (in descending order) in telecommunications, financial services, materials, utilities, and industrials. Information technology and health care are the only two sectors to emerge with the U.S. position relatively intact.

As companies around the world raise their game, there is widespread worry that U.S. businesses are losing their competitive edge. Indicators of decline are not hard to find. After the 1980s and 1990s, when the United States was used to sustained periods of economic growth, America has now endured 11 straight years of economic growth lower than 4 percent.<sup>6</sup> During this same period, China has grown over 9 percent a year, as it has for the preceding two decades—the fastest growth rate for any major economy in recorded history.<sup>7</sup>

In the United States, the number of start-ups per capita has also been falling steadily for the past three decades.<sup>8</sup> The percent of initial public offerings in the Americas has declined from 41 percent in 2000 to 20 percent today with much of the growth shifting to Asia. In the last year alone, Asian stock markets listed eight of the ten largest market debuts including firms from the United States, France, and Russia.<sup>9</sup>

During the 1990s, multinational American companies added nearly two jobs in the United States for every new job created overseas. This ratio reversed in the 2000s, with multinationals cutting a total of 2.9 million jobs in the U.S. while hiring 2.4 foreign workers.<sup>10</sup> In 2010, China overtook the United States as the world's largest maker of manufactured goods.<sup>11</sup> In

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<sup>5</sup> David Barboza, "Bridge Comes to San Francisco with a Made-in-China Label," *The New York Times*, June 26, 2011.

<sup>6</sup> Gerald F. Seib, "Malaise Casts Shadow on '12 Vote," *The Wall Street Journal*, June 7, 2011.

<sup>7</sup> Zakaria, op. cit., p. 102.

<sup>8</sup> David Brooks, "The Genteel Nation," *The New York Times*, September 9, 2010, and "Pundit Under Protest," *The New York Times*, June 14, 2011.

<sup>9</sup> Bettina Wassener, "Asia Captures Lion's Share of Big I.P.O.'s," *The New York Times DealBook*, December 1, 2010.

<sup>10</sup> David Wessel, "What's Wrong with America's Job Engine?" *The Wall Street Journal*, July 27, 2011.

<sup>11</sup> Thomas Friedman and Michael Mandelbaum, *That Used To Be Us: How America Fell Behind in the World It Invented and How We Can Come Back*. Farrar, Straus and Giroux, 2011, p. 314.

the services sector, the cumulative number of U.S. jobs that have been moved offshore increased from 315,000 in 2003 to 1.2 million by 2008.<sup>12</sup>

The net result of these sobering statistics: the U.S. cumulative trade deficit now exceeds \$10 trillion and nearly one out of every five men in America between the age of twenty-five and fifty-four is unemployed.<sup>13</sup>

Against this backdrop, there is fear in America of national decline: sixty-five percent of Americans believe that the nation is in decline according to a September 2010 NBC/Wall Street Journal poll.<sup>14</sup>

Are U.S. businesses losing their ability to compete? The evidence is mixed. As **Table 1** indicates, American firms still hold commanding leads in most industries. Moreover, American businesses remain world leaders in terms of productivity and profits, and continue to lead the world in their ability to innovate.<sup>15</sup> But, with the rise of global competition, one conclusion is inescapable: American businesses must fight hard if they want to win the future.

## *Part II. – The Business of Business Schools*

No country has invested more in educating business leaders than the United States: more than 150,000 students graduate from American MBA programs each year, up from 20,000 in 1970.<sup>16</sup> With business schools teaching so many students the tools and techniques of successful management, how is it possible for American businesses to be falling behind in the race for customers and capital?

Many explanations can be advanced for the decline in the competitive position of U.S. businesses. But given the tens of thousands of newly-minted MBA graduates who are hired by U.S. businesses each year, there is one (uncomfortable) possibility that needs to be considered: MBA curriculums are failing to teach America's future business leaders what they need to win in today's competitive global markets. If this supposition is true, the root of the problem may lie in the fundamental shift that has occurred in the objectives of management education.

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<sup>12</sup> Linda Levine, "Offshoring (or Offshore Outsourcing) and Job Loss Among U.S. Workers," Congressional Research Service Report 7-5700, January 21, 2011, p. 6.

<sup>13</sup> Friedman and Mandelbaum, *op. cit.*, p. 75.

<sup>14</sup> David Brooks, "The Genteel Nation," *The New York Times*, September 9, 2010.

<sup>15</sup> Zakaria, *op. cit.*, p. 200.

<sup>16</sup> National Center for Education Statistics. Also cited in "Case Studies," *The Economist*, May 6, 2010.

*From “Competing to Win” to “Balancing Competing Objectives”*

Business schools first began to achieve prominence in the early 1950s following World War II. Coming out of the war years, it was critically important to train a new cadre of managers to oversee the rebuilding of the economy for peacetime purposes. Using curriculum recommendations from sources such as the Ford and Carnegie Foundations, universities began investing significant resources to improve the academic rigor of their graduate schools of business administration.

Not surprisingly, the design of business schools and the hiring of new faculty reflected wartime experiences. In addition to a focus on command-and-control leadership, business schools embraced techniques such as linear programming that had been developed to manage wartime logistical supply lines. These mathematical models were adapted to business use by focusing on maximizing an objective function—such as revenue, profit, or other measures of company value—subject to the constraint of limited resources. Such optimization techniques were widely taught in courses on microeconomics, planning and control, and production management.

At the same time, the principles of mathematical game theory were also being extended and imported into business schools. In increasingly sophisticated models, the actions of self-interested competitors created new business terms (e.g., a zero-sum game) and the prediction of competitive behavior in different kinds of markets (e.g., prisoner’s dilemma, bidding strategies).

Together, these and similar techniques formed the backbone of business school curriculums: in this era, the focus of business school training was teaching students how to organize and lead to beat competitors when faced with scarce resources and imperfect information.

In the classroom, these models—and the thinking on which they were based—required students to make hard choices. Decision trees laid out options. Choices had to be made, and their consequences managed. In fact, during these formative years, decision-making was the essence of management.

By the 1980s, after decades of post-war prosperity, the focus of business schools began to change. Reflecting changes in business practices and in Western society at large, business school curriculums began to recognize the importance of responsibility to a wider range of constituents, including employees, local communities, governments, and others affected by the decisions of the firm. This change in business school curriculums aligned with an increasing emphasis in the media and society on social welfare, environmental quality, and the needs of an increasingly diverse workforce.

Twenty years later, the frauds, business failures, and recession of the 2000s—blamed by the popular press on executive greed—provided additional justification to redesign business

school curriculums to emphasize responsibility to a broad range of society's constituents. New courses on corporate accountability and business ethics were introduced in MBA programs across the country.

This trend has continued. Today, instead of competing to win—the original focus of business schools—the focus has shifted to balancing competing objectives in a way that is fair and equitable to the various stakeholders of a business. In the words of R. Edward Freeman, one of the original champions of this approach: “Stakeholder theory does not give primacy to one stakeholder group over another, though there will surely be times when one group will benefit at the expense of the other. In general, however, management must keep relationships among stakeholders in balance.”<sup>17</sup>

This perspective is reflected in the analysis of Datar, Garvin, and Cullen who, in their recent book, *Rethinking the MBA: Business Education at a Crossroads*, offer a comprehensive critique of current U.S. business school curriculums. Under the heading “The Role, Responsibilities, and Purpose of Business,” they write,

Business leaders today are increasingly wrestling with the changing scope and nature of their responsibilities. . . . Executives must determine how best to *balance* financial and nonfinancial objectives while simultaneously *juggling* the demands of such diverse constituencies as shareholders, bondholders, customers, employees, regulators, legislators, NGOs, and the public at large.<sup>18</sup> [italics added]

Teaching students how to balance such competing objectives is now the accepted goal of business school curriculums. In the next section, we consider the implications of this goal on competitiveness.

### *Does What Is Taught In Business Schools Matter?*

Before examining the effects of business school curriculums on competitiveness, I should note two assumptions that underpin the analysis. The first relates to the concept of limited attention. Businesses can't do everything, nor can business schools. My analysis assumes that faculty must make choices about where to direct student attention—emphasizing some topics and perspectives and deemphasizing others.

Second, I assume that what is taught in business schools affects how tomorrow's leaders will manage their businesses. Some would question this assumption, arguing that the primary value of business schools is not in the theories and lessons taught in the classroom, but rather in

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<sup>17</sup> R. Edward Freeman, “A Stakeholder Theory of the Modern Corporation,” in T. Beauchamp and N. Bowie, *Ethical Theory and Business*, 7<sup>th</sup> ed., Upper Saddle River, NJ: Pearson, 2004, 55-64. As cited in Martin Sandbu, *Just Business: Arguments in Business Ethics*, Prentice Hall, 2011, p. 24.

<sup>18</sup> Datar, Garvin, and Cullen, op. cit., p. 158.



the screening function that graduate schools provide—identifying high potential candidates for prospective employers. In this view, for which Michael Spence won a Nobel Prize, acquiring an MBA from an elite business school is primarily a signal of an individual’s quality. Acceptance to the program is the market signal that creates valuable information; the content of the education itself is relatively unimportant.<sup>19</sup>

So it may not matter what is taught in America’s business schools. Business school students are, by nature, competitive and entrepreneurial (witness their ability to be accepted to these highly competitive programs). What is taught in MBA classrooms—whether right or wrong—won’t change the basic personal qualities that will assure their ultimate success.

These arguments have some merit, and I will return to them later in the paper. But for the moment, I will assume that what is taught in business schools makes a difference.

### *Part III. – Too Much of a Good Thing?*

Over the years, American business schools have developed sophisticated theories that mirror the increasing complexity of business. In marketing courses, faculty teach students how to segment markets and serve the needs of different customer groups. Leadership experts explain the interplay of culture, mission, and values in inspiring effort. Accountants teach students how to build sophisticated scorecards and align incentives to link the various parts of a business to implement plans. Strategy researchers bring elegant analytic techniques into the classroom to evaluate competitive dynamics and network effects.

On the face of it, these subjects seem like the right ones to teach in business schools. And they probably are. But the desired outcome—training students to be effective managers and leaders—may have gone off the rails for four related reasons.

First, business schools have repeatedly taken a good thing—an idea, a concept, or a theory—and expanded it to encompass more and more variables until it becomes so broad and all-inclusive that it dilutes the value that the technique or theory was designed to deliver. Second, in a bid to make a difference in society, the missions of business schools have expanded to encompass a host of nonbusiness initiatives that divert scarce resources from the primary mission of teaching students how to compete to win. Third, as more attention is devoted to the role of business in improving social welfare, business school curriculums have increasingly emphasized doing-well-by-doing-good at the expense of competitive advantage. Finally, to elevate the

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<sup>19</sup> Spence, A. M. (1973). “Job Market Signaling,” *Quarterly Journal of Economics* (The MIT Press) 87 (3): 355–374. doi:10.2307/1882010. <http://www.jstor.org/stable/1882010>.

Spence, A. M. (1974). *Market Signaling: Informational Transfer in Hiring and Related Screening Processes*. Cambridge: Harvard University Press.

standing of business in society, business schools have asked students to commit to higher-order ideals that undermine their ability to compete.

Let's look at each of these trends in more detail.

### Theory Creep

In the military, strategists speak of mission creep: a gradual expansion of objectives during the course of a campaign that can, over time, lead to the ultimate failure of the mission. Business schools do the same thing, only with theories and concepts: I call this *theory creep*.

Consider a few examples. Business schools teach students that focusing on customers is important for a company's success. This is an important idea that few would dispute. But this common-sense notion has been expanded by theory creep. To elevate the importance of other favored groups who also want to feel important, business schools have expanded the definition of customer and now teach students the merits of using the word customer to describe internal groups. Thus, the human resources function exists to meet the needs of its internal customers: the business units it serves. Similarly, the distribution division becomes a customer of manufacturing. In the external environment, the term customer has been broadened to enhance the importance of a variety of stakeholders. At the limit, some theorists argue, "Today, the term customer not only means the traditional customer but every entity that interacts with you in a significant manner."<sup>20</sup>

To reinforce the idea that everyone is a customer, business school faculty publish papers with titles such as, "Exploring the *Internal Customer Mind-Set* of Marketing Personnel" and "Examining the Relationship Between Internal Service Quality and Its Dimensions, and *Internal Customer Satisfaction*".<sup>21</sup> [italics added]

This is not a formula for winning. Highly competitive companies are crystal clear about who their primary customer is (and is not). They choose. Then they dedicate all possible resources to meet and exceed the needs of that primary customer. They do not allow resources or management attention to be diverted to the needs of "internal customers." They do not try to serve so many different types of customers—allocating resources equally—that no customer group is well served.

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<sup>20</sup> J. Shuman, J. Twombly, and D. Rottenberg, *Everyone is a Customer*. Chicago: Dearborn Trade Publishing, 2002.

<sup>21</sup> Felicia Lusk, Karen Kennedy, and Jerry Goolsby, "Exploring the Internal Customer Mind-Set of Marketing Personnel," *Journal of Relationship Marketing*, Vol. 3 (2/3), 2004, 89-106; Minjoon Jun and Shaohan Cai, "Examining the Relationship Between Internal Service Quality and its Dimensions, and Internal Customer Satisfaction," *Total Quality Management*, Vol. 21 (2), February 2010, 205-223.

Theory creep is also evident in leadership courses that teach the importance of core values. This is a fundamental and important idea. But the notion of core values has been expanded into all-encompassing lists as students are taught that they should acknowledge the value and contribution of every stakeholder and interest group.

Winning companies do not make long, all-encompassing, lists of values. Again, they choose. Their “core” values provide clarity about who comes first when faced with tough decisions. Some companies choose customers (e.g., Amazon). Others choose shareholders (e.g., Pfizer). Some choose employees (e.g., Southwest Airlines). There is no right or wrong, but choosing is essential. Then, everyone in the business knows how to make tough decisions when faced with competing alternatives.

Consider another example of theory creep. Measures and incentives are a pillar of business school curriculums. Although business schools started with the important insight that non-financial measures can be usefully used to balance financial accounting measures, theory creep—too much of a good thing—has expanded (and diluted) the power of this idea. Core curriculum courses now teach students techniques to build scorecards with 30, 40, 50 or even more measures, all with the mistaken assumption that measuring more things results in a more complete—and therefore better—scorecard. Lists have supplanted the need to choose. Instead of identifying “critical” performance variables, business school courses teach students to build comprehensive lists.

### *Balance as the Goal*

As these examples illustrate, instead of choosing, business schools are increasingly teaching students to develop lists that ensure that no one is excluded and all points of view are considered. In an attempt to be all things to all people—to avoid ignoring or offending anyone—business schools have downplayed the importance of making tough choices.

Balance has become the overriding goal of business school curriculums. Instead of choosing a primary customer and dedicating all possible resources to their needs, business schools teach students to balance the needs of various types of external and internal customers. Instead of communicating core values that clarify whose interests come first when faced with tough decisions, students are taught to build balanced lists of noble ideals that benefit all stakeholders. Instead of monitoring the small number of variables that could lead to strategic failure, students learn to build balanced scorecards with an overload of measures.<sup>22</sup>

In classroom discussions, the corollary of balance is completeness. Students are encouraged to create complete lists of alternatives with their pros and cons. Case studies support

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<sup>22</sup> Robert Simons, *Seven Strategy Questions: A Simple Approach for Better Execution*, Harvard Business Review Press, 2010.

this syndrome by providing long descriptions to support multiple points of view rather than targeted inputs to make tough, consequential choices. Faculty avoid forcing tough choices. And, because tough choices are avoided, students don't have to worry about the difficult details of strategy execution.

In 2008, Harvard Business Publishing surveyed outside users of HBS cases. Responses were received from 2,123 teaching faculty (13% response rate). The most frequently-cited criticisms from respondents were that cases were too long, unnecessarily descriptive, and lacked a decision focus. Longtime users noted a decline in case quality since the 1980s when cases regularly set up a decision dilemma and forced students to make a choice.<sup>23</sup>

Balance has become both the goal and the answer in business school curriculums. But as Keith Hammonds argues in a *Fast Company* article, today's global competitors are anything but balanced:

The global economy is antibalance. For as much as Accenture and Google say they value an environment that allows workers balance, they're increasingly competing against companies that don't. You're competing against workers with a lot more to gain than you, who will work harder for less money to get the job done.<sup>24</sup>

Balance may be the goal in MBA curriculums. But in today's competitive global markets, creative destruction—and survival of the fittest—generates the antibalance that spurs the allocation of resources to their highest and best use.

### Mission Creep

The second major trend in today's business schools also occurs because of an expanding domain. Not only are business schools subject to theory creep, but also to *mission creep*: ever-widening objectives that divert resources and can, ultimately, imperil an organization's original mission.

The mission statements of business schools aspire to educate students who will make a difference in society. To support this mission, business schools sponsor a range of initiatives that provide direct benefits society. But many of these initiatives do not focus on improving business

<sup>23</sup> "Higher Ed Case Usage Survey," Harvard Business Publishing, July 2008.

<sup>24</sup> Keith Hammonds, Balance is Bunk, *Fast Company*, October 2004, p. 72.

practices and may, in fact, divert attention from the primary mission of competing to win. Two of the most common of these initiatives are not-for-profit management and public policy advocacy.

### *Not-for-Profit Management*

Not-for-profit management initiatives in business schools were conceived with the altruistic aim of *exporting* business practices to non-profits to help them achieve their philanthropic goals. These best practices were welcomed and valued by non-profit leaders and directors.

But the flow of information, theories, and values has not been one way. Nurtured by executive programs for non-profit managers, not-for-profit MBA courses, and a growing not-for-profit research agenda, business schools have increasingly been *importing* non-profit practices to underpin business theories and teaching. As a *Financial Times* article noted, “For years, the corporate sector has lent its practices and expertise to the non-profit sector, but there is an increasing awareness of what the non-profit world can teach its for-profit counterpart.”<sup>25</sup>

Among the lessons that non-profits can teach business are the value of inspirational missions, the necessity of building stakeholder perspectives into strategic plans, the importance of holding CEOs accountable to board members with diverse agendas, and the potential payoff from investing in initiatives that produce societal benefits. As Professor Sandra Dawson of Oxford University’s business school reported, “We have started an elective called ‘Beyond Profit’ because I’m eager that students see the need for not just generating surplus but returning that surplus to the communities in which they work.”<sup>26</sup>

In case studies and classroom discussions, not-for-profit organizations are portrayed as refreshingly virtuous. It is no surprise, therefore, that as business schools have included more not-for-profit thinking in their curriculums, students have responded. Some business schools now report that internships with not-for-profits are as highly prized as those at Goldman Sachs. John Fernandes, president of the AACSB (which accredits American business schools), argues that more and more business students are choosing internships in the non-profit world because they are more environmentally and socially conscious than those in previous generations.<sup>27</sup>

The focus on not-for-profit activity is also affecting the jobs that MBA graduates are taking. At the Yale School of Management, for example, only 1 percent of MBAs chose non-

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<sup>25</sup> Rebecca Knight, “Not-for-Profit Sector Captures the Hearts and Minds of MBAs,” *Financial Times*, October 4, 2010.

<sup>26</sup> Ian Wylie, “From Charity to Teacher, Oxfam set sights on MBA Students,” *Financial Times*, January 10, 2011.

<sup>27</sup> Knight, *op. cit.*

profit careers in 2003; today more than 9 percent are accepting jobs in non-profits.<sup>28</sup> According to Net Impact, an organization that champions sustainable business practices, 15 percent of graduating MBAs say they are more interested in pursuing a career in the non-profit sector after the financial crisis. Says the AACSB's Fernandez, "these jobs ... speak to the desire of this new generation of MBAs to do good with their business degrees."<sup>29</sup>

Financial incentives also play a role in this shift in job preferences, especially in a depressed economy. Most major business schools—including Berkeley, Harvard, Northwestern, Stanford, and Yale—offer cash payments in the form of loan forgiveness or "top-up" salary bonuses to encourage their graduates to accept positions in public service and not-for-profit organizations.

The Social Enterprise Initiative at HBS reflects the success of this perspective and the energy and attention it draws. In the last academic year, 535 HBS students enrolled in social enterprise electives, more than 400 joined the Social Enterprise Club, 27 social enterprise teams entered the annual HBS Business Plan Contest, and 94 students pursued a Social Enterprise Summer Fellowship.<sup>30</sup>

### *Public Policy Advocacy*

In addition to an increasing interest in not-for-profit management, business schools today are also host to an array of special initiatives and academic centers that aim to promote public policies that improve social welfare (e.g., health policies, environmental regulation). These initiatives are a response, in part, to the increasing hostility that corporate executives face when confronted with demands for social equality. At the most recent Davos meetings, for example, social inequality was the topic that CEOs and other participants most wanted to discuss and debate.<sup>31</sup>

The purpose of public policy initiatives is to coordinate faculty and institutional resources for research, teaching, and advocacy. Stanford, for example, has a Center for Social Innovation that addresses social and environmental challenges through research, case studies, executive programs, and conferences. University of Michigan's business school has the Erb Institute for

<sup>28</sup> Part of the allure of non-profits may also be due to a lack of job opportunities in the private sector during a time of recession.

<sup>29</sup> Knight, *op. cit.*

<sup>30</sup> *HBS Alumni Bulletin*, December 2010, p. 35.

<sup>31</sup> Gillian Tett, "Lonely CEOs Flee Hostile World for Self-Help Group," *Financial Times*, January 24, 2011.

Global Sustainable Enterprise. At Wharton, the Business and Public Policy Initiative focuses research and teaching on deregulation and privatization, public and urban finance, and international industrial policy. Faculty members associated with this initiative have held appointments with federal regulatory agencies, government and not-for-profit think tanks, and have consulted to international and U.S. government agencies.<sup>32</sup>

At Harvard Business School, three of the four current school-wide initiatives focus on public policy: (1) Business and the Environment, (2) Healthcare, and (3) Social Enterprise. (The fourth focuses on Leadership.)

The annual HBS Faculty Research Colloquium showcases faculty research that, “reflects the kinds of choices we make as a school—to make a difference.”

Four research projects were presented in 2011. The first focused on interventions to influence legislative policy that could enhance savings rates among low-income Americans. The second reported field experiments in Zambia to improve local health outcomes. The third discussed efforts to build a community of scholars dedicated to tackling public policy research questions. The final presentation, which focused on designing customer-focused organizations, was the only one of the four that addressed a topic related to running a business or competing effectively.

These are all worthwhile initiatives. But, in a world of limited attention, choosing to focus on public policy initiatives risks crowding out the attention and resources that might otherwise be focused on competing to win.

### *Doing Well by Doing Good*

One of the most eagerly embraced concepts in support of the typical business school mission—making a difference to society—is the idea that businesses can make choices that not only contribute to their bottom line, but also to the well-being of other constituents in society. Business schools have sought to showcase these practices under the rubric of *doing-well-by-doing-good*.

Doing-well-by-doing-good rests on the theory that allocating resources to certain societally-beneficial initiatives will lead to better products and increased customer satisfaction. If

<sup>32</sup> <http://bpub.wharton.upenn.edu>. Accessed 9/16/2011.

the theory is correct, then competitive advantage, revenue growth, and profits will follow. But if the theory is incorrect, then allocating resources to these initiatives will divert resources and absorb attention that could be used to focus on winning in the marketplace.

Let's consider sustainability as an example of the potential implications of these initiatives on competitiveness.

### *Sustainability*

Sustainability practices focus on how companies can prosper by making choices in favor of health, wellness, and the natural environment. As Robert Harrison, CEO of Bill Clinton's Global Initiative, notes, more and more companies are "building into their DNA doing social or environmental good. . . . The idea of making money and at the same time achieving some social good or environmental good, I would say, is the accepted ideal or the goal for many corporations."<sup>33</sup>

Business schools are playing a leading role in the sustainability movement. They are increasingly partnering with NGOs to develop social and environmental internships. Many business schools ask NGO professionals to serve on advisory boards or become adjunct professors. Some schools are also working with NGOs to develop curriculum content.<sup>34</sup>

Yet, proponents of sustainability argue that business schools are not doing enough. David Grayson, director of the Centre for Corporate Responsibility at the Cranfield School of Management, has expressed alarm that only 326 business schools (of more than 10,000 worldwide) have signed up for the UN Principles of Responsible Management Education; only 60 schools are members of the Academy for Business in Society; and only 40 are in the Global Responsible Leadership Initiative. He cites Etienne Davignon, former vice-president of the European Commission, in his speech to the inaugural meeting of The European Academy of Business in Society: "If business schools do not start taking responsible business seriously, companies will lose interest in the topic. They will lose interest in business schools."<sup>35</sup>

The opening sentence of a recent *Harvard Business Review* article stated, "No one these days seriously denies the need for sustainable business practices."<sup>36</sup> But sustainability as an end in itself—disconnected from the preferences of customers, the availability of substitute products and services, and the actions of rivals—can undermine competitiveness.

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<sup>33</sup> "Make Money and Do Good is the New Corporate Buzz," Reuters, February 28, 2011.

<sup>34</sup> S. Murray, "A Meeting of Minds that Unites Former Adversaries," *Financial Times*, April 11, 2011.

<sup>35</sup> David Grayson, "Schools are Blind to the Sustainability Revolution," *Financial Times*, October 4, 2010.

<sup>36</sup> Yvon Chouinard, Jib Ellison, and Rick Ridgeway, "The Sustainable Economy," *Harvard Business Review*, October 2011, p. 52.



Consider Wal-Mart, a company often portrayed as leveraging a focus on sustainability to improve profitability. In his book, *Force of Nature: The Unlikely Story of Wal-Mart's Green Revolution*, author Edward Humes describes the company's efforts to pursue a variety of sustainability initiatives including the reduction of package size to save cost.<sup>37</sup> However, Wal-Mart executives are now rethinking their sustainability initiatives after seven consecutive quarters of sales decline. The new head of the U.S. division, William Simon, is refocusing the business on low prices across the board after admitting the company had lost sight of the needs of its primary customer: "A lot of things distracted us from our pricing mission. ... 'Every Day Low Price' has to come from every day low cost, which means we have to operate for less. Sustainability and some of these other initiatives can be distracting if they don't add to every day low cost."<sup>38</sup>

Similarly, the increasing emphasis on health and wellness in the sugary drink/salty snack market championed by Pepsi CEO Indra Nooyi is causing the company's core brands to lag competitors (Diet Coke recently overtook Pepsi's brand in the U.S. for the first time). Earnings forecasts have been slashed and Nooyi has been increasingly defensive in justifying her attempts to move customer tastes away from unhealthy choices. Stated one analyst, "It puts pressure on them because they've been really focused on health and wellness and trying to make their brands more healthy ... Carbonated soft drinks are not an easy category to make healthy." Said another, "They have to realize that at their core they are a sugary, fatty cola company and people like that ... Health and wellness is a good focus, but you can't be singularly focused on it."<sup>39</sup>

As the economy has suffered over the last several years, consumers have moved away from green products: recycled toilet paper, organic foods, and hybrid cars. As a partner in the consumer products practice at A.T. Kearney stated, "Every consumer says, 'I want to help the environment, I'm looking for ecofriendly products.' But if it's one or two pennies higher in price, they're not going to buy it. There is a discrepancy between what people say and what they do."<sup>40</sup>

### Quest for Enlightenment

Business executives are a maligned lot. Caricatured as greedy capitalists, executives have been roundly accused of allowing blind self-interest to create a worldwide financial meltdown.

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<sup>37</sup> Edward Humes, *Force of Nature: The Unlikely Story of Wal-Mart's Green Revolution*, HarperBusiness, 2011.

<sup>38</sup> Miguel Bustillo, "With Sales Flabby, Wal-Mart Turns to Its Core," *The New York Times*, March 21, 2011.

<sup>39</sup> A. Rappeport, "Pepsi Chief Faces Challenge of Putting Fizz Back into Brands," *Financial Times*, March 21, 2011.

<sup>40</sup> Stephanie Clifford and Andrew Martin, "As Consumers Cut Spending, 'Green' Products Lose Allure," *The New York Times*, April 22, 2011.

Our national leaders and role models reinforce the undesirability of business. Michelle Obama, for example, in a series of speeches implored her women audiences to move away from commercial ventures: “Don’t go into corporate America. . . . become teachers. Work for the community. Be a nurse . . . Make that choice, as we did, to move out of the money-making industry into the helping industry.”<sup>41</sup>

As *New York Times* columnist David Brooks wrote, “It is obligatory these days in a polite society to have a complicated attitude toward success. If you attend a prestigious college or professional school, you are supposed to struggle tirelessly for success while denying that you have much interest in it.”<sup>42</sup>

To combat the low esteem with which business executives are held, business schools are working hard to rebuild trust with society. They are on a quest to demonstrate to the world that business leaders are not the amoral, greedy, robber barons portrayed in the media.

To demonstrate commitment to higher-order ideals, business school students are now being asked to embrace *enlightened standards of behavior*. In particular, students are lectured that they should assume the mantle of professionals pledged to uphold high standards of corporate social responsibility.

Although these entreaties are well-intentioned, their effect may be to undermine the ability to compete.

### *Management as a Profession*

One of the principal ways that business schools have sought to improve their image is to argue that management is, or should be, a profession. In fact, the founding deans and benefactors of Harvard Business School—America’s first graduate school of business administration—aspired to turn business management into a professional discipline to counter the “relatively low repute that business enjoyed in comparison with the other professions.”<sup>43</sup>

It’s easy to understand the desire to include business executives among the ranks of doctors, lawyers, and architects. Professions offer two virtues that are important in rebuilding trust with society: expertise and integrity. Let’s consider each of these attributes in turn.

Professionals are defined by the fact that they possess specialized expert knowledge that cannot be evaluated by the untrained public. This trait can also describe business leaders, argued

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<sup>41</sup> David Brooks, “The Genteel Nation,” *The New York Times*, September 9, 2010.

<sup>42</sup> David Brooks, “Why Trump Soars,” *The New York Times*, April 19, 2011.

<sup>43</sup> Rakesh Khurana and Tarun Khanna, “Harvard Business School and the Making of a New Profession,” Harvard Business School case 9-406-025, July 2005.

Owen Young, CEO of General Electric, during his 1927 speech to dedicate the newly-constructed Harvard Business School campus:

Products have become so highly technical and the rules of business so complicated, that it is difficult, if not impossible, for anyone other than business men, and for the most part only those in the same line of business, to sit in judgment on unfair practices which the law cannot well reach and which the church cannot well understand. Indeed, as a disciplinary force in the complexities of modern society, a profession of business with many specialized subdivisions should be welcome by all.<sup>44</sup>

The second desirable attribute of professions is accountability for high standards of integrity. Because a professional's specialized knowledge is inaccessible to the layperson, professions are self-governed with admission to their ranks based on carefully-specified education, training, and examination standards. Moreover, all professions hold their members accountable for high standards of integrity using codes of professional conduct that sanction or expel members who tarnish the reputation of the profession or act in ways that harm public welfare.

Expertise and integrity are clearly appealing virtues for managers entrusted with corporate resources. But there is a third attribute of all professions that is never mentioned when making the case that management should be considered a profession: professions constrain competition.

At the most fundamental level, professions ensure that individuals who are not certified by government-approved professional associations are forbidden from practicing in the profession's domain. Such limits to competition are justified, of course, by the need to protect the public from the untrained and the unscrupulous.

But more important to the arguments of this paper, within any profession, codes of conduct limit competition among members. Members are forbidden from offering products or services for which they are not fully trained and qualified. Additionally, rules often mandate the adoption of common fee scales, ban advertising, or forbid certain forms of business organization.<sup>45</sup> In professions, members must never imply that they possess skills that are superior to those of other members. Advertising is frowned upon. The American Medical Association, American Bar Association, and the American Institute of Certified Public Accountants have all banned advertising as unprofessional.<sup>46</sup> (These bans were later overturned

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<sup>44</sup> Owen Young, "Dedication Address," in *Dedication Addresses*, 3-4, reprinted in the July 1927 issue of *Harvard Business Review*. From Khurana and Khanna, op. cit.

<sup>45</sup> Stanley Siebert, "Advertising and the Professions," *The Service Industries Journal*, Vol. 4 (3), 1984, 108-124.

<sup>46</sup> Gene Burton, "Attitudes Toward the Advertising by Lawyers, Doctors, and CPAs," *Journal of Professional Services Marketing*, vol 8 (1), 1991.

by the courts as a restriction of free speech, even as the respective professional associations fought to maintain the advertising bans.)<sup>47</sup>

Significant limitations to advertising—and barriers to competition among members—remain today. The Code of Ethics for Canadian Chartered Accountants (of which I am a member) currently states, “A member shall not adopt any method of obtaining or attracting clients which tends to lower the standard of dignity of the profession and, in particular, he shall not urge anyone pressingly or repeatedly to retain his professional services.” (Think of all the managers who would be expelled from the “management profession” for undignified advertising or for urging potential customers pressingly and repeatedly to buy their products or services!)

A further section on advertising states, “A member may not, in his advertisements, compare the quality of his services with that of services offered by other members.”<sup>48</sup> This prohibition is enforced by the threat of expulsion for those who attempt to overtly compete with other members of the profession.

Executives from Apple, Linux, and Newegg.com, among many others, would all have been expelled from the management profession. Why? They all followed the time-honored—but unprofessional—practice of disparaging a competitor’s product. Apple got its start by linking IBM—its David and Goliath competitor—to Orwell’s Big Brother. Later, Apple became well known for its commercials parodying Windows PCs. Linux has made fun of both Apple and Microsoft operating systems. Similar tactics of ridicule—using a clueless sales clerk dressed in a Best Buy shirt—have recently been used by Newegg.com against Best Buy resulting in a cease-and-desist legal demand from Best Buy’s lawyers.<sup>49</sup>

Notwithstanding the desire of all professions to constrain competition, today’s MBA students are encouraged to sign an MBA oath pledging that (among other ideals to be discussed in the next section), they will work as professionals. The oath states, in part:

“As a business leader ... I promise that ... I will invest in developing myself and others, helping the *management profession* to continue to advance and create sustainable and inclusive prosperity. In exercising my *professional duties* according to these principles ...” [Italics added]

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<sup>47</sup> In *Bates v. State Bar of Arizona*, 433 U.S. 350 (1977), the Supreme Court first allowed lawyers to advertise their services.

<sup>48</sup> Code of Ethics of Chartered Accountants, Rules 10 and 71. Updated to August 2, 2011. Accessed at [http://www2.publicationsduquebec.gouv.qc.ca/dynamicSearch/telecharge.php?type=3&file=/C\\_48/C48R4\\_A.HTM](http://www2.publicationsduquebec.gouv.qc.ca/dynamicSearch/telecharge.php?type=3&file=/C_48/C48R4_A.HTM)

<sup>49</sup> Randall Stroll, “Our Geeks are Better than your Geeks.” *The New York Times*, June 26, 2011.

Since it was introduced in 2009, the MBA oath has been signed by more than 6,000 students at more than 50 business schools. As of this writing, 914 of Harvard's graduating MBA students have signed the pledge (approximately 50% of each year's graduating class).<sup>50</sup>

### *Corporate Social Responsibility*

The second way that business schools have sought to improve their images is by emphasizing the importance of corporate social responsibility. Corporate responsibility is a longstanding concept in business schools. But recently, it has become commonplace to expand this concept by inserting the word “social” between “corporate” and “responsibility.” Corporate *social* responsibility is defined as, “efforts corporations make above and beyond regulation to balance the needs of stakeholders with the need to make a profit.”<sup>51</sup>

Under this expanded concept, business executives are asked to assume responsibility for the wellbeing of various stakeholders by investing in initiatives such as green environmental practices, progressive labor and workforce diversity practices, philanthropic outlays, and community-building activities such as investment in schools and public health programs.

Of course, the concept of corporate social responsibility pulls us back to the debate triggered by Milton Friedman's claim that the business of business is business. In a 2005 survey on corporate social responsibility, *The Economist* recognized the movement's success, but with a troubling conclusion.

*The Economist* argued that, under the guidance of Adam Smith's invisible hand, the pursuit of private profit is not, as claimed by corporate social responsibility advocates, in conflict with public interest. Instead, the survival instincts of companies—driven by competitive product markets and the dynamics of factor input prices—force businesses to innovate in ways that are, in the end, in the best interests of society.<sup>52</sup> Such enlightened self-interest by companies—as they compete for customers and capital—has created an economic miracle over the past 50 years:

Living standards and the quality of life have risen at a pace, and to a level, that would have been impossible to imagine in earlier times. This improvement in people's lives, staggering by any historical standard, is not measured solely in

<sup>50</sup> <http://mbaoath.org/>. Accessed August 11, 2011.

<sup>51</sup> Deborah Doane, “The Myth of CSR: The Problem with assuming that companies can do well by doing good is that markets don't really work that way,” *Stanford Social Innovation Review*, Fall 2005, 23-29.

<sup>52</sup> In this line of reasoning, government intervention in the form of regulation or tax incentives is legitimate when externalities are not factored into business costs.

terms of material consumption—important though it is, for instance to have enough to eat, to keep warm in winter, to be entertained and educated and to be able to travel. In addition to material gains such as these, and to all the other blessings of western “consumer society”, broader measures of well-being have raced upward as well: infant mortality has plummeted, life expectancy has soared, and the quality of those extended years of life, in terms of freedom from chronic sickness and pain, is better than earlier generations ever dreamed it could be.

All this has been bestowed not just on an elite, but on the broad mass of people. In the West today the poor live better lives than all but the nobility enjoyed throughout the course of modern history before capitalism. Capitalism, plainly, has been the driving force behind this unparalleled economic and social progress.

But the authors then dismay over the paradox—given this unrivalled prosperity—of a reviled capitalism:

According even to middle-of-the-road popular opinion, capitalism is at best a regrettable necessity, a useful monster that needs to be bound, drugged and muzzled if it is not to go on the rampage. Stranger still, this view seems to be shared by a good proportion of business leaders. Capitalism, if guided by nothing but their own unchecked intentions, would be wicked, destructive and exploitive, they apparently believe—bent on raping the planet and intent of keeping the poor outside the capitalist West in poverty.<sup>53</sup>

In the end, *The Economist* conceded that the corporate social responsibility movement has won “a significant victory in the battle of ideas:”

The winners are the charities, non-government organizations and other elements of what is called civil society that pushed CSR in the first place. ... In public-relations terms, their victory is total. In fact, their opponents never turned up. Unopposed, the CSR movement has distilled a widespread suspicion of capitalism into a set of demands for action. As its champions would say, they have held companies to account, by embarrassing the ones that especially offend against the principles of CSR, and by mobilizing public sentiment and an almost universally sympathetic press against them. Intellectually, at least, the corporate world has surrendered and gone over to the other side.”<sup>54</sup>

Business school faculty have been enthusiastic champions of corporate social responsibility. The Aspen Institute recently canvassed 149 business schools to assess the degree

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<sup>53</sup> Clive Crook, “The Good Company,” *The Economist*, January 20, 2005.

<sup>54</sup> Clive Crook, “The Good Company,” *The Economist*, January 20, 2005.

to which they offered courses on corporate social responsibility, linked corporate social responsibility with a firm's ability to increase profit, and encouraged faculty to publish scholarly articles on corporate social responsibility in peer-reviewed journals. On average, the reporting schools offered 19 courses per school with significant corporate social responsibility content. Business schools at University of Michigan, Stanford, and Yale were ranked among the top five (Harvard did not participate in the survey).<sup>55</sup> Says Judith Samuelson, executive director of the Aspen Institute's Business and Society Program, "There are more courses than ever before with content on social, ethical, and environmental issues, more courses about the role of business as a positive agent for change, more exposure of students to this content, and more research published by faculty on relevant topics."

### *Corporate Social Accountability*

One of the tenets of management theory is that with responsibility comes accountability. In this case, corporate social *responsibility* demands corporate social *accountability*.

The first attempt to create corporate social accountability was the "triple bottom line" approach to performance measurement introduced in the mid-1990s. This new definition of accountability asked business leaders to expand their reporting beyond traditional financial results to include measures of value created (or destroyed) in relation to the economy, society, and the environment, or in the alliterative: people, planet, profit.<sup>56</sup>

More recently, "integrated reporting" has been advocated as a way that business leaders can assume accountability for corporate social responsibility. Integrated reporting includes "information on a company's environmental (e.g., energy and water usage and carbon emissions), social (e.g., labor practices, employee turnover, and workforce diversity), and governance (e.g., independence of the board and approach to risk management) performance. In some cases, they also include information on the company's philanthropic and community activities."<sup>57</sup>

Proponents argue that integrated reporting will force companies to address climate and water risk, labor unrest, poverty, and other social issues.<sup>58</sup> An international committee to support this new initiative—The International Integrated Reporting Committee (IIRC)—has been formed under the auspices of environmental advocate Prince Charles of England. According to the

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<sup>55</sup> The Aspen Institute, Beyond Grey Pinstripes: [www.beyondgreypinstripes.org/rankings/trends.cfm](http://www.beyondgreypinstripes.org/rankings/trends.cfm); CSR Wire Press Release, September 21, 2011.

<sup>56</sup> John Elkington, Jed Emerson, and Seb Beloe, "The Value Palette," *California Management Review*, Vol. 48, no. 2, 2006, 6–28.

<sup>57</sup> Robert Eccles and Daniela Saltzman, "Achieving Sustainability Through Integrated Reporting," *Stanford Social Innovation Review*, Vol. 9, no. 3, 56–62.

<sup>58</sup> Executive Summaries: A Workshop on Integrated Reporting, Report Out by Stakeholder and Investor Groups, Harvard Business School, October 14–15, 2010, p. 13.

committee, “integrated reporting demonstrates the linkages between an organization’s strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, integrated reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing.”<sup>59</sup>

A 2010 conference on integrated reporting at Harvard Business School enumerated the advantages of working closely with, and reporting directly to, diverse stakeholders. Such benefits include providing investors with information that allow them to overweight their portfolios with socially responsible companies, encouraging regulators to adopt mandatory reporting requirements for key sustainability metrics, empowering consumers to use the new integrated reporting data to inform their purchasing choices, allowing NGOs to leverage the new reports to reinforce leaders and call out laggards, and promoting governments to enact full-cost pricing that includes environmental externalities and offers tax benefits to companies that excel on key social metrics.<sup>60</sup>

Corporate social responsibility outreach initiatives have been received favorably by stakeholders and activists who are normally hostile to business interests. For example, legal scholar and business critic Joel Bakan, author of *The Corporation: The Pathological Pursuit of Profit and Power*, applauds corporate social responsibility as an opportunity for corporate leaders to “lessen their guilt.”<sup>61</sup>

France is the first country to pass laws requiring integrated reporting for companies that employ more than 500 employees.<sup>62</sup>

The question, of course, is the extent to which the diversion of attention and resources to appease the demands of social activists might be better utilized by focusing on the goal of competing to win in competitive global markets.

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<sup>59</sup> IIRC website: <http://www.theiirc.org/about/>

<sup>60</sup> Executive Summaries: A Workshop on Integrated Reporting, Report Out by Company Group, Harvard Business School, October 14-15, 2010, p. 10.

<sup>61</sup> Aneel Karnani, “‘Doing Well by Doing Good:’ The Grand Illusion,” *California Management Review*, Vol. 53, no. 2, 2011, 69-86.

<sup>62</sup> Executive Summaries: A Workshop on Integrated Reporting, First Draft of Framework Developed by the Working Group of the International Integrated Reporting Committee, Harvard Business School, October 14-15, 2010, p. 5.



In solidarity with the concept of corporate social responsibility, students at Harvard are encouraged to sign the MBA oath pledging that they will work to serve the greater good of society. The oath states, in part:

“As a business leader ... I promise that ... I will not advance my personal interests at the expense of my enterprise or society, ... refrain from unfair competition or business practice harmful to society ... protect the right of future generations to advance their standard of living and enjoy a healthy planet ... and create sustainable and inclusive prosperity. In exercising my professional duties according to these principles ... I will remain accountable to my peers and society for my actions.”

### *A Recipe for Losing the Competitive Race?*

Business schools encourage students to commit to a variety of well-intentioned initiatives that will make a difference in society: not-for-profit management, public policy advocacy, sustainability, professional codes of conduct, and corporate social responsibility, to name a few. An argument can be made that each of these practices is worthwhile—even noble—and deserves the resources that it currently receives.

But attention in business schools (as in business) is limited. Choices must be made about what to emphasize in teaching and research agendas, and what to deemphasize. Research budgets must be allocated and courses approved. Are the initiatives described above—as worthwhile or noble as they may be—driving out a focus on competing to win?

If students adopted all the well-intentioned practices that are preached in today’s business schools, what would the end-product look like? Consider an ideal company—let’s call it Company A—that has implemented the practices described above.

In Company A, executives want to feel good about themselves and their contribution to society. They strive to be inclusive so that no one feels neglected or left out. Company A executives like to say that “everyone is a customer” and talk about both internal customers and external customers. Because Company A executives strive for balance, they have organized their business as a matrix, allocating resources equally across functions, regions, and business units.

Company A’s statement of core values is also inclusive, acknowledging the importance of employees, shareholders, customers, and a variety of stakeholders in the community. Performance scorecards in Company A strive for completeness as well, enumerating more than 50 different measures to ensure that the contributions of all functions and individuals are recognized.

Executives in Company A use best-practices gleaned from not-for-profit organizations. The company's mission statement promises to balance the needs of constituents and to improve social welfare. Executives use deliberative decision processes so that the needs of the company's stakeholders are considered. Hiring policies emphasize diversity. Company A executives spend a significant amount of time with government officials and politicians advising them on public policy.

Company A executives sell products that they believe are healthful and environmentally friendly even when customers prefer more traditional formulations or are unwilling to pay higher prices for purported environmental benefits.

Company A executives also believe that it is their responsibility to allocate significant attention and resources to improving social welfare. Company A issues social accountability reports that include measures for such things as carbon emissions, diversity, employee labor practices, and resources spent on philanthropic and community-building activities. Company executives work closely with social activist groups to ensure that they are responding adequately to their concerns.

Executives at Company A are proud to do all this because they consider themselves professionals. As professionals, they never venture into product markets where they have no competence. They never compete in unseemly ways, and never claim that their products and services are superior to competitors. Their goal is to focus their organization on activities that benefit society.

Now let's contrast these practices with those of a competitor.

Company B executives believe that it's their job to make tough choices and focus their entire organization on executing those decisions. They have identified their business's primary customer and have organized all the company's resources to maximize attention on meeting or exceeding their customer's specific needs—whether it's providing the lowest possible price or the most customized service. Managers never allow the word customer to be used internally or to describe other external groups.

When faced with tough choices, employees know which way to turn: Company B's core values state clearly whose interests come first when faced with difficult tradeoffs. (In this case, executives at Company B have chosen to always put customer interests first, even if this means lower profit for shareholders or asking employees to work harder or longer.)

Company B executives track only a small number of critical performance variables—those that could cause their strategy to fail. Because everyone watches what the boss watches, the entire organization pays attention to these key indicators. Other diagnostic indicators are delegated to staff specialists.

Company B executives generate continuous performance pressure using techniques such as stretch goals, business unit rankings, and accountability for broad-based measures such as customer satisfaction. Forced rankings are used to identify low performers, who are placed on work improvement programs and terminated if they fail to respond.

Executives at Company B minimize resources allocated to staff groups and to any function or activity that does not create value for their customers. They pay no attention to the agenda of political influence groups and prepare the minimum financial and regulatory reports required for statutory filing requirements.

Executives at Company B do not consider themselves professionals. They think of themselves as no-holds-barred competitors. Their goal is to win.

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Many people believe that American businesses are in decline. Yet, as foreign competitors become increasingly competitive in industries that American firms once dominated, students in U.S. business school are being encouraged to take jobs in fields like health care, renewable energy, and environmental sustainability.

As *New York Times* columnist David Brooks recently lamented, “After decades of affluence, the U.S has drifted away from the hardheaded practical mentality that built the nation’s wealth in the first place. . . . Up and down society, people are moving away from commercial, productive activities and toward pleasant, enlightened but less productive ones.”<sup>63</sup>

Are business schools part of the solution, or are they part of the problem? A benign view is that the attention devoted to the initiatives described above can do significant good and, in any case, does no harm.

But attention is limited: choosing to focus on the initiatives described above reduces the amount of time that business schools can teach students how to win in increasingly competitive global markets. Has doing good things—what in previous eras might be described as icing on the cake—now become the main agenda—the cake itself?

This possibility leads to a more troubling possibility: U.S. business schools may be teaching students how to fail.

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<sup>63</sup> David Brooks, “The Genteel Nation,” *The New York Times*, September 9, 2010, and “Pundit Under Protest,” June 14, 2011.

In any organization, the whole equals the sum of its parts. If students bolted together all the initiatives described above, it would be a recipe for creating Company A: an organization that is flabby, unfocused, and lacking the will to win. When faced off against a lean, hungry, focused competitor—like Company B—Company A will lose every time. And, as a Chinese executive noted recently, “Hungry people have especially clear minds.”<sup>64</sup>

But perhaps there is no need for worry. Business school students are, by nature, ambitious and competitive. So even if the concerns raised in this paper are valid—and business schools are unwittingly underwriting initiatives and perspectives that can make businesses uncompetitive—students will compete vigorously anyway. They will figure out themselves how to organize and lead businesses capable of winning in highly competitive markets.

Alternatively, if business schools are failing to teach students what they need to know to win in increasingly competitive markets, the most ambitious and entrepreneurial candidates will not waste their valuable time. They will forsake MBA programs altogether.

If you assume—as I do—that what is taught in business schools matters, then it may be time to refocus attention on the missing link: competing to win. Tomorrow’s leaders deserve nothing less. Providing them with the insight and tools to go out and win in today’s global markets would serve them—and American business—well.

#### **Part IV. – Designing Winning Organizations**

So far, I have explored the agendas and perspectives that may be receiving too much attention in business school curriculums. Let’s now consider the flip-side of the coin—topics that may be getting too little attention.

To win in today’s hypercompetitive markets, students must be taught how to make the tough choices needed to execute winning strategies. Recent studies by the Economist Intelligence Unit estimated that companies lose 37 percent of their revenue and profit potential because of poor strategy execution.<sup>65</sup> Another recent study reported that employees in three out of every five companies rate their business as weak at execution.<sup>66</sup> It’s no wonder, then, that is the topic that senior executives worry about most. A recent Conference Board survey, for example, tabulated the responses from more than 400 CEOs, chairmen, or presidents from

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<sup>64</sup> Terry Gou, founder and CEO of China’s giant technology manufacturing company Foxconn. Reported in Frederik Balfour and Tim Culpan, “The Man Who Makes Your iPhone,” *BusinessWeek*, September 9, 2010.

<sup>65</sup> Michael Mankins and Richard Steele, “Turning Great Strategy Into Great Performance,” *Harvard Business Review*, July-August 2005, 64-72.

<sup>66</sup> Gary Neilson, Karla Martin, and Elizabeth Powers, “The Secrets to Successful Strategy Execution,” *Harvard Business Review*, June 2008, 60-70.

around the world to the question, “what is your greatest concern in the coming year?” ‘Excellence in execution’ and ‘consistent execution of strategy’ were the top two responses.<sup>67</sup>

MBA programs were originally designed to respond to this need. Up until the 1980s, curriculums were anchored by one or more required courses on strategy execution (typically second-year, integrative courses with titles such as “business policy”). No longer. Today’s MBA programs do not provide courses that focus student attention on this critically important topic. Instead, students are taught the analytics of strategy formulation: but they learn little about how to organize and mobilize resources to execute winning strategies.

Using Harvard Business School’s second-year elective MBA course, “Designing Winning Organizations,” as an example, let’s next consider some of the strategy execution choices that are missing-in-action from current MBA curriculums (you may think of others).<sup>68</sup>

### *Building a Foundation for Competitive Success*

Designing a winning organization—one that can prevail against hungry, focused, global competitors—requires first building a strong foundation for competitive success. Two strategy execution choices are essential. The first forces managers to allocate resources to customers with laser-like precision. The second provides guidelines for effective decision making when resources are constrained.

#### *Decision # 1: Choosing a Primary Customer and Dedicating all Possible Resources to Their Needs.*

This is the first instance where business school curriculums must push back the insidious effects of theory creep and eliminate the comfortable—but dangerous—habit of calling everyone a customer. Choosing a primary customer is the essence of business strategy for a simple reason: understanding who your primary customer is, and what it is they value, allows managers to allocate resources to maximize the attention devoted to customer preferences. This decision is essential if students are to learn how to design an organization: by function (if customers desire low price), by region (if customers desire local customization), by product group (if customers want the best technology or brand features), by dedicated service teams (if customers want a

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<sup>67</sup> “CEO Challenge 2010: Top 10 Challenges,” The Conference Board, Research Report R-1461-10-RR, 2010. The breakdown of responses was from Asia (22%), Europe (36%), U.S. (24%), or other countries (18%).

<sup>68</sup> The course framework is based on theories developed in Robert Simons, *Seven Strategy Questions: A Simple Approach for Better Execution*, Harvard Business Review Press, 2010; *Levers of Organization Design: How Managers Use Accountability Systems for Greater Performance and Commitment*, Harvard Business School Press, 2005; *Levers of Control: How Managers Use Innovative Control Systems to Drive Strategic Renewal*, Harvard Business School Press, 1995.

long-term embedded relationship), or by knowledge groups (if customers are in knowledge markets, such as some pharmaceutical companies or investment firms).

Students in most business schools receive very few, if any, courses on organization design. As a result, they never learn how to take the first, critically-important step of choosing a primary customer and identifying that customer's needs. In winning organizations, this is a choice that successful leaders cannot, and do not, delegate.

*Decision # 2: Choosing Core Values that Clarify Whose Interests Come First When Faced with Difficult Decisions.*

This is the second instance where theory creep must be pushed back. Instead of teaching students to create lists of platitudes intended to appeal to diverse stakeholders, students must understand that the core value of any winning business is clarity about whose interests come first when confronted with tough decisions. In some companies, customers come first; in others, it is shareholders; some choose employees. There is no right or wrong: each choice is based on a different theory of value creation. But choosing—and communicating that choice—is essential if everyone in the organization is to be aligned so that the business can compete successfully against more focused competitors.

Instead of a list of platitudes, students should be taught the different value-creation theories that underpin the decision to put (1) customers first, (2) employees first, or (3) shareholders first. Then, they should learn how to craft core values in a way that prioritizes these interests and how to communicate that choice widely throughout an organization.

*Focusing Attention on Winning*

With the foundation in place, the next set of tough choices ensures that everyone in the business is focused on winning. Performance measures and strategic boundaries are the strategy execution tools that managers employ for this task.

*Decision # 3: Choosing Critical Performance Variables to Monitor.*

Theory creep has expanded the number of performance measures that students are taught to include in performance scorecards. The result is long, ineffectual lists of measures. The goal of completeness, which invariably results in scorecards with too many measures, should be jettisoned in favor of impact. Instead of teaching how to build scorecards with an overload of equally-weighted measures, students should be asked to focus on critical performance variables.

Critical performance variables are those that are so important that, if a business fails to perform on these variables, its entire strategy could be in jeopardy. This test—and the hard choice it implies—will point students to the importance of tracking a relatively small number of measures that make the difference between winning and losing.

*Decision # 4: Choosing Strategic Boundaries that Limit Choice of Action.*

The majority of the lessons in business school curriculums focus on what managers should do in particular circumstances. There is too little emphasis on what not to do. But the essence—and hard work—of strategy is determining what opportunities to avoid.<sup>69</sup>

As employees are asked to be entrepreneurial and compete aggressively to win, there is increasing risk that someone might do something that puts the business at risk. Strategic boundaries are designed to protect against (1) unethical behavior, (2) activities that could impair a business's reputation, and (3) the diversion of resources to initiatives and projects that are at odds with the current strategy.

Boundaries—always stated in the negative—declare specified actions and behaviors off-limits (think of the Ten Commandments of the Bible). Students must learn how to analyze risks in different industries and under different strategies—and how to set strategic boundaries to inoculate a business from potentially damaging behavior. “Do No Harm” should be the ongoing (if unrealized) aspiration.

Paradoxically, boundaries provide both focus and freedom. Strategic boundaries—in the form of actions and opportunities to be avoided—are a hallmark of winning companies.

*Facilitating Winning Behaviors*

With the stage set in terms of building a foundation for competitive success and focusing attention on winning, the next set of tough choices revolves around selecting techniques to import competitive pressure inside the organization and deciding on the type of commitment needed to make the strategy work.

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<sup>69</sup> Robert Simons, “Strategic Boundaries,” Chapter 3 in *Levers of Control*. Harvard Business School Press, 1995.

*Decision # 5: Choosing Techniques to Generate Creative Tension.*

In a quest for work-life balance and a kinder, gentler capitalism, business school curriculums have deemphasized performance pressures in favor of balance. But as the economist Robert Frank wrote:

The human brain was formed by relentless competition in the natural world ... Much of life, after all, is graded on the curve. ... worry about success causes students to study harder to gain admission to better universities. It makes assistant professors work harder to earn tenure. It leads film makers to strive harder to create the perfect scene, and songwriters to dig deeper for the most pleasing melody. In every domain, people who work harder are more likely to succeed professionally, more likely to make a difference. ... The anxiety we feel about whether to succeed is evolution's way of motivating us.<sup>70</sup>

Many people are uncomfortable with the pressure to excel that is needed to compete successfully in today's expanding global economy.<sup>71</sup> But managers and workers in emerging economies are willing to work harder, longer, and for less money than their American counterparts. And, as a result, they are often winning the competitive race with better quality and lower cost.

To compete successfully, students must be taught the techniques that can be used to import market pressures inside a business so that everyone acts like a winning competitor. Such techniques include stretch goals, rankings of individuals and units, setting span of accountability wider than span of control, and the allocation of central costs to business unit managers. Students must learn when to choose these techniques and how to use them to generate healthy and productive performance pressures.

*Decision #6: Choosing to Motivate Based on Self-interest or Shared Responsibility for Success.*

Business schools offer a conflicting and confusing panoply of theories of motivation. Economics courses teach students that people are motivated primarily by money. Other courses that focus on softer skills emphasize intrinsic motivators such as self-esteem and job satisfaction.

Students are never asked to be explicit in defining their own personal theories of motivation. They should be.

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<sup>70</sup> Robert H. Frank, "Why Worry? It's Good For You," *The New York Times*, May 15, 2011.

<sup>71</sup> The spectacle of Amy Chua, who in her book, *Battle Hymn of the Tiger Mother*, described how she relentlessly demanded that her daughters excel at everything they did so that they could prevail in life's ongoing race, elicited howls of protest in editorials and letters to the editor across the country.



The leaders of winning businesses are crystal clear on the type of commitment that is required for their strategy to work—and the motivators needed to drive that level of commitment. In some businesses, managers have decided (correctly) that they should organize and reward based on self-interest. With this approach, it's every man and woman for him or herself. In other businesses, however, managers have decided (again correctly) that they should organize and lead in a way that creates shared responsibility for success. With this approach, creating a shared commitment to help others is essential.

The correct choice—self-interest or shared responsibility for success—depends on a variety of factors including the nature of customer markets, the complexity of the value chain, and the availability of complete performance measures. Students should be taught how to make this critically important decision—and understand how to execute this choice if they want to lead a winning organization.

### *Adapting for the Future*

The previous choices emphasized the successful execution of today's strategy. In addition, winning businesses must constantly scan the environment for evidence of change. Adapting successfully to change is the focus of the last tough choice.

### *Decision # 7: Choosing Questions to Focus the Organization on Strategic Uncertainties.*

Most of the theories and frameworks presented in business school curriculums focus on providing answers. But adapting successfully to an unknown future requires business leaders to ask the right questions. This is the final—and critical—skill that students must learn.

Very little of the current business school curriculum addresses how to choose questions. Students must be taught the importance of identifying the strategic uncertainties that could jeopardize or invalidate current business strategies. Then they must learn how to use interactive systems to encourage bottom-up information sharing and change.

Since everyone watches what the boss watches, consistent questioning—based on emerging data and trends—sends powerful signals through an organization about what is important and where people should be allocating their scarce attention. The ability to identify strategic uncertainties and consistently ask questions to elicit the bottom-up flow of intelligence—and trigger debate and dialogue throughout the organization—is a skill that leaders of winning companies must cultivate.

## Part V. – Restoring a Focus on Competing to Win

In his book, *The Comeback: How Innovation Will Restore the American Dream*, author Gary Shapiro describes a dinner in 2008 in Qingdao, China where a local Chinese official turned to him while pointing his thumb in the air and said: “China going up.” Then, he turned his thumb down and added, “U.S. going down.” Not surprisingly, Shapiro then goes on to argue that innovation—America’s great strength—will allow the United States to prosper and prevail against increasingly confident global competitors.<sup>72</sup>

Shapiro has good reason for this optimism. American businesses are unparalleled innovators, and the stronger the first-mover advantage, the more lucrative the returns from innovation (e.g. Google).

It is heartening, therefore, that an increasing percent of resources in business schools is being devoted to innovation: innovation labs, digital initiatives, and product design and development requirements. Stanford’s business school has the Hasso Plattner Institute of Design, or d.school, where students take elective courses in innovative thinking. University of Toronto’s business school has a “Design Works” facility where students can learn and practice innovation. University of Virginia’s Darden School of Business has recently built an innovation lab called I-Lab.<sup>73</sup> Harvard Business School has a new Innovation Lab nearing completion.

The purpose of business innovation is to create something new that competitors do not possess—to rewrite the rules of the game and break away from the pack. Sir Andrew Likierman, dean of the London Business School, unveiled a new center to study innovation that will focus on “novel and creative ways to create value through new products and services, or new business models or new processes.”<sup>74</sup>

Achieving this goal is not always easy since innovation niches are often fleeting and difficult to defend. But, to the extent that companies can use innovation to sprint ahead, this is indeed a winning formula.

If, however, companies (and business schools) are investing in innovation because they are unable to compete and win under the existing rules of the game, there is little cause for celebration. Companies that cannot execute today’s strategy to create value with current customers using current products and services and existing business models and processes will be forced to cede markets to competitors that can.

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<sup>72</sup> Gary Shapiro, *The Comeback: How Innovation Will Restore the American Dream*. Beaufort Books, 2011 as reported in Alan Murray, “Catching Up, Getting Ahead,” *The New York Times*, February 17, 2011.

<sup>73</sup> Lane Wallace, “Multicultural Critical Theory. At B-School?” *The New York Times*, January 10, 2010.

<sup>74</sup> Melissa Korn, “Dean in London Champions Innovation,” *The Wall Street Journal*, May 5, 2011.

To drive this point home, Gary Pisano and Willy Shih, in their article, “Restoring American Competitiveness,” document the shift of basic strategy execution skills—manufacturing of high technology components, software development, and product design—to offshore companies. They write:

Companies operating in the U.S. were steadily outsourcing development and manufacturing work to specialists abroad and cutting their spending on basic research. In making their decisions to outsource, executives were heeding the advice du jour of business gurus and Wall Street: Focus on your core competencies, off-load your low-value-added activities, and redeploy the savings to innovation, the true source of competitive advantage.<sup>75</sup>

They also document the alarming speed with which these offshore companies become winning competitors once they perfected the skills and technology needed to supply the needs of their American customers. The result: a loss in the ability of American companies to invent the next generation of products that are key to rebuilding the economy.

Innovation can indeed be the source of tomorrow’s success: but business schools must ensure that innovation is not a panacea—a lifeline to mask failure in the ability to compete today.

### *Refocusing Business School Curriculums*

Business school core curriculums continue to be largely organized around functional courses such as accounting, marketing, and organizational behavior, with the addition of a course on business ethics in response to the recent financial crisis. These topics will always be important because they teach the basic knowledge and skills required by all effective managers. But there is rising concern among employers that today’s MBA programs are failing to meet the needs of businesses operating in increasingly competitive global environments.<sup>76</sup>

Datar, Garvin, and Cullen, in their critique of current U.S. business school curriculums, suggest that today’s students are trained to analyze, but not to implement. To make MBA programs more relevant and responsive to the needs of employers, they advocate investment in eight key areas:

1. A global perspective
2. Leadership development
3. Integration
4. Organizational realities

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<sup>75</sup> Gary Pisano and Willy Shih, “Restoring American Competitiveness,” *Harvard Business Review*, July-August 2009, p 116.

<sup>76</sup> Fred David, Meredith David, and Forest David, “What Are Business Schools Doing for Business Today?” *Business Horizons*, Vol 54, 2011, 51-62.

5. Creative, innovative thinking
6. Oral and written communication
7. The role, responsibilities, and purpose of business
8. Risk, regulation, and restraint.<sup>77</sup>

In response to these and similar proposals, there is currently a raft of change underway in the curriculum and teaching approaches of American business schools.<sup>78</sup> These innovations focus mainly on enhancing skill development by changing *how* students are taught: more group work, more hands-on experiential learning, and new field-based immersion exercises.

As important as these initiatives are, they do not address the potential erosion of the fundamental purpose of business schools. To counteract balance as a goal and too much of a good thing (in the form of theory creep, mission creep, doing-well-by-doing-good, and the quest for enlightenment), business schools must re-emphasize their basic mission: teaching students how to compete to win.

In addition, MBA programs should also have, at their core, at least one integrative course that emphasizes strategy execution in highly competitive markets. After acquiring the necessary tools and techniques taught in functional courses, students should be taught how to pull it all together. Such a required course—taken as a capstone before graduation—would emphasize tough choices, with special attention to decisions like those outlined above, that maximize impact.

### Conclusion

Business leaders are increasingly worried about the decline in the competitiveness of American businesses. Could this decline be attributed—at least in part—to what is currently taught in American business schools? Are the perspectives and practices advocated in today’s business schools curriculums educating future business leaders to be “also-rans” in the competitive global race?

If there is any truth in this hypothesis, perhaps it’s time to refocus attention by bringing business schools back to their roots and re-centering curriculums around competing to win. This will require offsetting well-intentioned topics and initiatives that can diminish the capability to compete with a renewed emphasis on the tough choices that leaders of winning businesses make.

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<sup>77</sup> Srikant Datar, David Garvin, and Patrick Cullen, *Rethinking the MBA: Business Education at a Crossroads*. Harvard Business Press, 2010, p. 158.

<sup>78</sup> Many of these changes are catalogued in Datar, Garvin, and Cullen.

Remedies to this problem are not to be found in *how* business schools teach students. Instead, business schools must address *what they are preaching* (balance as the goal, the professional nature of management, the importance of corporate social accountability) as well as what they are *not teaching*.

The mission of business schools is to educate leaders who make a difference in society. But perhaps it is time to remember why business schools were created in the first place. The business of business schools is to teach business. This means that, first and foremost, business schools should be educating leaders who can create and manage businesses capable of winning in competitive markets. This is the true path for business leaders—and business schools—to make a positive and enduring difference in society.

**Table 1:** Selected Countries' Share of Global Operating Earnings by Industry Group, 1995, 2005, 2010, and U.S. Change from 1995-2010<sup>a</sup>

		Consumer Discretionary	Industrials	Information Technology	Health Care	Financials	Materials	Consumer Staples	Telecom. Services	Energy	Utilities
<b>U.S.</b>	2010	31.10	25.29	58.72	49.66	16.13	12.99	37.05	10.36	25.12	22.32
	2005	25.43	22.86	59.10	55.38	28.42	13.43	42.53	17.56	31.61	15.53
	1995	47.95	42.87	58.54	54.87	49.58	29.40	42.20	36.70	32.90	43.71
	$\Delta^b$	<b>-16.85</b>	<b>-17.58</b>	<b>0.18</b>	<b>-5.21</b>	<b>-33.45</b>	<b>-16.41</b>	<b>-5.15</b>	<b>-26.34</b>	<b>-7.78</b>	<b>-21.39</b>
	$\% \Delta^c$	<b>-35.14</b>	<b>-41.00</b>	<b>0.31</b>	<b>-9.50</b>	<b>-67.46</b>	<b>-55.83</b>	<b>-12.21</b>	<b>-71.77</b>	<b>-23.66</b>	<b>-48.95</b>
<b>China</b>	2010	5.11	10.13	1.82	2.94	16.03	5.28	2.10	1.56	11.47	3.26
	2005	0.52	3.00	-0.21	0.23	2.40	3.77	0.41	3.70	7.06	2.05
	1995	1.24	1.00	0.69	0.40	0.28	1.38	0.43	--	0.23	0.94
<b>Japan</b>	2010	12.08	14.28	8.60	7.15	4.84	5.76	4.83	9.31	1.90	-6.47
	2005	22.92	18.06	12.03	8.03	7.11	12.59	6.53	11.91	1.55	8.33
	1995	12.15	18.12	27.52	9.94	-21.05	7.91	8.21	6.29	2.50	6.67
<b>U.K.</b>	2010	4.71	3.02	0.97	6.46	4.97	14.50	11.64	8.57	5.28	7.54
	2005	8.99	3.26	1.03	10.44	9.53	10.78	12.27	-27.44	14.32	8.87
	1995	13.53	6.82	4.19	5.61	18.05	7.05	17.62	9.80	23.73	13.14
<b>France</b>	2010	6.19	4.88	0.48	4.99	5.67	1.69	3.75	4.61	3.70	6.12
	2005	6.90	3.51	1.62	3.10	5.01	1.43	4.49	10.47	4.54	9.76
	1995	5.61	-4.65	-10.59	2.82	1.04	2.82	3.96	2.40	3.11	1.60
<b>Germany</b>	2010	11.89	4.46	1.99	3.08	3.45	3.84	1.51	1.27	--	10.85
	2005	8.35	4.87	1.40	4.25	3.29	3.64	1.70	6.77	--	9.15
	1995	-0.71	2.79	0.41	8.36	5.84	3.71	1.15	8.80	0.64	6.51
<b>Brazil</b>	2010	1.62	1.08	0.78	0.24	3.83	7.90	2.94	4.47	5.13	7.61
	2005	0.32	0.41	0.16	0.07	1.20	6.00	1.05	2.25	2.79	4.23
	1995	-0.14	0.04	0.06	--	-2.30	12.36	1.01	2.67	1.73	-0.26
<b>Hong Kong</b>	2010	1.36	2.85	0.41	0.16	6.81	1.39	0.46	10.18	2.05	2.86
	2005	1.28	2.62	0.20	-0.06	2.54	0.10	0.23	8.68	0.87	3.39
	1995	1.03	2.90	0.12	--	7.36	--	0.07	2.79	--	2.64
<b>Russian Fed.</b>	2010	--	0.32	--	0.18	0.73	3.59	0.49	2.25	18.98	3.64
	2005	0.10	0.17	0.05	0.04	0.45	3.85	0.35	3.03	10.04	1.28
	1995 <sup>d</sup>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>India</b>	2010	2.39	2.16	2.51	3.41	2.66	4.82	1.36	0.90	4.34	4.40
	2005	1.34	1.64	1.63	1.00	0.85	3.30	0.99	0.51	2.59	2.81
	1995	0.77	0.38	0.04	0.15	0.31	1.47	0.34	--	1.57	0.34

Source: Compiled from S&P, Global Vantage, accessed October 2011.

<sup>a</sup> Operating earnings represents income before extraordinary items.

<sup>b</sup> Represents difference from 1995 to 2010.

<sup>c</sup> Represents percentage change from 1995 to 2010.

<sup>d</sup> Data for Russia in 1995 is not available.

Note: "--" represents shares of 0.02% or less.