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The Business of Business Schools: Restoring a Focus on Competing to Win

Robert Simons

Abstract

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 over the last decade about the urgent need to reshape American business schools.¹ 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 (Khurana and Spender, 2012; Datar, Garvin, and Cullen, 2010; Mintzberg, 2005; Ghoshal, 2005; Bennis and O’Toole, 2005; Pfeffer and Fong, 2002).

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’ 2011 trade deficit surpasses \$550 billion, The World Economic Forum downgraded the competitiveness of American businesses for a fourth year in a row, from fifth to seventh 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.

The public mood has also darkened as the relative decline in American prosperity has fostered fear of the future. The Occupy Wall Street movement, which has captured the imagination of protesters around the country, has struck a populist chord by focusing anger on the inequities created by our capitalist system.

As American businesses struggle to adapt to increasing global pressures, business schools are also changing. But are business schools part of the solution or part of the problem? In this paper, I argue that it may be the latter. 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.

This is not a problem of bad intentions or incompetence. It’s a story of good intentions gone awry.

The paper is divided into four 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 undermining the ability of students to compete effectively. This leads to an analysis of the consequences of these choices. I end the paper by pointing to topics that should be addressed by business schools interested in improving the competitive capability of future business leaders.

My intention is to provoke reflection and debate. 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.

¹ I focus this analysis on American business schools, but the arguments apply to the business schools of many advanced Western countries.

Part I. – The Business of Business

Before analyzing what is taught in business schools—and its effect on competitiveness—I should highlight an assumption that may seem obvious, but is critical to the arguments that follow: competition is the bedrock of capitalist economies. As Adam Smith articulated over two hundred years ago, the presence of multiple buyers and sellers competing with each other in active markets is one of the defining features of capitalism. Moreover, capitalist competition creates a dynamic efficiency that no system based on centralized planning can match. In healthy market economies—those that support competition between independently-owned businesses—social welfare is maximized through a dynamic process that promotes experimentation, rewards innovators who bring new goods and services to market, and forces the demise of firms that are not able to keep up (Kay, 2009; Schumpeter, 1950). Baumol (2004) calls this the miracle of the “free-market innovation machine.” Bhidé (2008) applies similar arguments in describing the cross-border innovation created by what he calls “venturesome” economies.

Notwithstanding the benefits of market-based capitalism (especially when compared to socialist or statist alternatives), there has been a longstanding debate about the proper role for businesses (and business leaders) in a free-market society. At one extreme is the view advanced by economists such as Milton Friedman who 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” (Friedman, 1970).

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 equal-

ly 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., Bill Gates can freely choose to give his own money to charity or support other social causes, but Microsoft executives 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 (2005) argues that the executives of corporations should assume responsibility for creating value for all stakeholders affected by their firm’s actions. Mackey follows this reasoning in his own firm by insisting that 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” (Mackey, 2005).

The divide between the “business of business is business” view espoused by free-market advocates such as Friedman 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 (or that emphasize social responsibility); 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, as many have argued, competition—for customers and capital—is the foundation of both our capitalist system and our economic success.

This reasoning returns us to the key assumption of this paper: competing is the essence of business. And, in any competition, the ultimate goal is to win. Companies that prevail over time—and create the most value for society—will be those that make better choices than competitors: choices that create superior value in the eyes of customers and investors.

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, and has begun exporting China-built Hondas to North America. 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 (Zakaria, 2011: 104). With the aim of becoming the world's civil engineer, the country successfully won the 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.²

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 2011. 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, and industrials. Information technology is the sole sector showing growth in the U.S. position.

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 accustomed to sustained periods of economic growth, America has now endured 12 straight years of economic growth below 4 percent. 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 (Zakaria, 2011: 102).

In the United States, the number of start-ups per capita has also been falling steadily for the past three decades. 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.

² David Barboza, "Bridge Comes to San Francisco with a Made-in-China Label," *The New York Times*, June 26, 2011.

In 2010 alone, Asian stock markets listed eight of the ten largest market debuts including firms from the United States, France, and Russia.³

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 million foreign workers.⁴ In 2010, China overtook the United States as the world's largest maker of manufactured goods (Friedman and Mandelbaum, 2011: 314). In 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 (Levine, 2011: 6).

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 (Friedman and Mandelbaum, 2011: 75).

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.

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 (Zakaria, 2011: 200; Shapiro, 2011). 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 165,000 students graduate from American MBA programs each year, up from 20,000 in 1970.⁵ Today, 900 American universities offer MBAs (Pfeffer and Fong, 2002). 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 this paper looks to the future to ask: Are the tens of thousands of newly-minted MBA graduates who are hired by U.S. businesses each year being adequately

³ Bettina Wassener, "Asia Captures Lion's Share of Big I.P.O.'s," *The New York Times DealBook*, December 1, 2010.

⁴ David Wessel, "What's Wrong with America's Job Engine?" *The Wall Street Journal*, July 27, 2011.

⁵ "AACSB Business School Data Trends and 2012 List of Accredited Schools," Tampa, FL: AACSB International, 2012: 16-17.

prepared for the increasingly challenging business world they will face? In the analysis to follow, I argue that today's business schools may be failing to meet this challenge. If so, the root of the problem lies in a fundamental shift that has occurred in the objectives of management education.

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 funded by organizations such as the Ford and Carnegie Foundations (see Gordon and Howell, 1959), 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 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.

The Cold War was then at its zenith with fierce debate about the relative merits (and perils) of capitalism and communism. Business schools were, predictably, beacons of capitalism. In fact, Harvard Business School was known colloquially during this period as, "The West Point of Capitalism."

By the late 1980s, after decades of post-war prosperity and the fall of the Berlin wall,

the focus of business schools began to change. Reflecting advancements in both business practices and 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, following a series of notable frauds and business failures (e.g., Enron, WorldCom) and the recession of the 2000s, the public's view of business began to sour. The popular press recounted tales of greed and portrayed business executives as exploiters of the public good. The academic literature pointed to the excesses of agency theory—a mainstay of MBA programs during the 1990s—and its glorification of self-interest as a contributing cause for the problems that followed (Ghoshal, 2005). Business schools responded by redoubling their efforts to emphasize responsibility to a broader 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 school curriculums—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 more nuanced 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” (Freeman, 2004: 60).

This perspective is reflected in the analysis of Datar, Garvin, and Cullen (2010) 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. (p. 22, 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 and, ultimately, social welfare.

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. But the desired outcome—training students to be effective leaders and managers—has 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 standing of business in society, business schools have asked students to commit to higher-order ideals that undermine their ability to compete.

At the heart of these arguments is the concept of limited attention. Following Herbert Simon (1976: 294) and Cyert and March (1963: 35), my analysis assumes that organizations cannot attend to all goals simultaneously. Attention is a scarce and limited resource. Therefore, choices must be made about what to teach and research—and what to ignore. As I shall argue, these choices have important consequences for the competitiveness of American business.

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 indiscriminately 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” (Shuman, Twombly, and Rottenberg, 2002: 11; italics in original).

To reinforce the idea that everyone is a customer, business school faculty publish papers with titles such as, “Examining the Relationship Between Internal Service Quality and Its Dimensions, and *Internal Customer Satisfaction*” (Jun and Cai, 2010) and “Exploring the *Internal Customer Mind-Set of Marketing Personnel*” (Lusk, Kennedy, and Goolsby, 2004). (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 (Simons, 2010, chapter 1).

Theory creep is also evident in leadership courses that teach the importance of core values. Again, 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 lists of values. Their “core” values provide clarity about who comes first when faced with tough decisions. Some companies put customers first (e.g., Amazon). Others choose employees (e.g., Southwest Airlines). Some choose shareholders (e.g., Pfizer). 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 (Simons, 2010, chapter 2).

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 beneficially used to balance financial accounting measures (Kaplan and Norton, 1992), theory creep—too much of a good thing—has expanded (and diluted) the power of this idea. Students are taught techniques for building scorecards with 20, 30, 40 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 (Simons, 2010, chapter 3).

Balance as the Goal

As these examples illustrate, instead of choosing, business schools are increasingly teaching students to develop lists that ensure that 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. Students are taught to build lists of noble ideals that benefit all stakeholders and balanced scorecards with an overload of measures. They are admonished to balance the needs of various types of external and internal customers. They are told to seek a work-life balance.

In classroom discussions, the corollary of balance is inclusiveness. Students are encouraged to create complete lists of alternatives with their pros and cons. Faculty rarely push them to make tough choices. And, because tough choices are avoided, students don't have to worry about the difficult details of strategy execution.

Case studies used in business school classrooms support this syndrome by providing increasingly long descriptions to support multiple points of view rather than targeted inputs to make tough, consequential choices. In 2008, for example, 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.

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. (Hammonds, 2004: 72)

Balance may be the goal in MBA curriculums. But in today's competitive global markets, creative destruction—survival of the fittest—is the Darwinian counterbalance 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 most American business schools aspire to educate leaders who will make a difference in society. To support this mission, business schools sponsor a range of initiatives that provide direct benefits to society. But many of these initiatives do not focus on improving business 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 more effectively and efficiently. 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. Such practices find favor in the public press. As a *Financial Times* article noted approvingly, “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.”⁶

Among the lessons that non-profits can teach business are 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.”⁷

In case studies and classroom discussions, not-for-profit organizations are portrayed—in contrast to their profit-seeking brethren—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 investment firms such as Goldman Sachs. John Fernandes, president of the Association to Advance Collegiate Schools of Business (AACSB) which accredits American business schools, argues that more and more business students are

⁶ Rebecca Knight, “Not-for-Profit Sector Captures the Hearts and Minds of MBAs,” *Financial Times*, October 4, 2010.

⁷ Ian Wylie, “From Charity to Teacher, Oxfam set sights on MBA Students,” *Financial Times*, January 10, 2011.

choosing internships in the non-profit world because they are more environmentally and socially conscious than those in previous generations.⁸

At Harvard Business School, the Social Enterprise Initiative reflects the success of this perspective and the energy and attention it draws. In 2010, 535 HBS students (60% of the class) 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.⁹

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 AACSBs Fernandez, “these jobs ... speak to the desire of this new generation of MBAs to do good with their business degrees.”¹⁰

Of course, financial incentives also play a role in shifting job preferences, especially in a depressed economy. Most major business schools—including Berkeley, Harvard, Northwestern, Stanford, and Yale—offer inducements in the form of loan forgiveness or “top-up” salary bonuses to encourage MBA graduates to accept positions in public service and not-for-profit organizations.

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., environmental regulation, health policies). These initiatives are a response, in part, to the increasing hostility that corporate executives face when confronted with demands for social equality. At recent Davos meetings, for example, social inequality was the topic that CEOs and other participants most wanted to discuss.¹¹

The purpose of such initiatives is to coordinate business school resources on public policy 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 Global Sustainable Enterprise. At Wharton, the Business and Public Policy Initiative focuses research and teaching on public and urban finance and international industrial policy. Faculty members associated with this initiative come from federal regulatory

⁸ Knight, op. cit.

⁹ *HBS Alumni Bulletin*, December 2010, p. 35.

¹⁰ Knight, op. cit.

¹¹ Gillian Tett, “Lonely CEOs Flee Hostile World for Self-Help Group,” *Financial Times*, January 24, 2011.

agencies, government and not-for-profit think tanks, and have consulted to international and U.S. government agencies.¹²

At Harvard Business School, three of the six current school-wide initiatives focus on public policy: (1) Business and the Environment, (2) Social Enterprise, and (3) Healthcare.¹³ The 2011 HBS Faculty Research Colloquium—designed to showcase faculty research that reflects the kinds of choices we make as a school—featured four research projects. 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 a broad range of constituents in society. Business schools have sought to showcase these practices—such as sustainability and diversity—under the rubric of *doing-well-by-doing-good*.

Doing-well-by-doing-good rests on the theory that allocating resources to societally-beneficial initiatives will lead to an enhanced workforce, better products, and increased customer satisfaction. If the theory is correct, then competitive advantage, revenue growth, and profits will follow. But if the theory is wrong, such 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 risks to competitiveness that these practices can create.

Sustainability

The opening sentence of a recent *Harvard Business Review* article stated, “No one these days seriously denies the need for sustainable business practices.” (Chouinard, Ellison, and

¹² <http://bpub.wharton.upenn.edu>. Accessed 9/16/2011.

¹³ The other three initiatives focus on Leadership, Globalization, and Entrepreneurship.

Ridgeway, 2011). Business schools are responding to this imperative by teaching students how companies can prosper by making choices in favor of the natural environment, health, and wellness. To develop new teaching materials to showcase these ideas, some business schools are working with environmental advocacy groups. Others are partnering with social and environmental NGOs to create new internship programs. In addition, many business schools are asking NGO executives to become adjunct professors or serve on their advisory boards.¹⁴

Yet, proponents of sustainability argue that business schools are not doing enough—they need to devote more resources to this topic. David Grayson, director of the Centre for Corporate Responsibility at the Cranfield School of Management, 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 business schools.”¹⁵

There is only one problem with this argument. 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.

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 (2011) describes the company's efforts to pursue a variety of sustainability initiatives including the reduction of package size to save cost. 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.”¹⁶

Similarly, the increasing emphasis on health and wellness championed by Pepsi CEO Indra Nooyi is causing the company's core brands to lose market share and lag competitors. As Diet Coke has overtaken Pepsi in the U.S. for the first time ever and earnings forecasts have been slashed, 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

¹⁴ S. Murray, “A Meeting of Minds that Unites Former Adversaries,” *Financial Times*, April 11, 2011.

¹⁵ David Grayson, “Schools are Blind to the Sustainability Revolution,” *Financial Times*, October 4, 2010.

¹⁶ Miguel Bustillo, “With Sales Flabby, Wal-Mart Turns to Its Core,” *The New York Times*, March 21, 2011.

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.”¹⁷

Pepsi executives have persisted by introducing biodegradable chip bags that consumers hate (too noisy) and cancelling \$20 million in Super Bowl ads to donate the money to charities that support sustainability. Acquisitions to support the new healthy-food strategy have dragged down the company’s return-on-capital, alarming analysts and investors.¹⁸

The timing could not be worse. Consumers have moved away from green products as the economy has suffered over the last several years. 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.”¹⁹

None of this is meant to suggest that sustainability is unimportant or should not be taught in business schools. Quite the opposite. If executed well, sustainability initiatives can indeed yield competitive advantage (the price premiums and widespread adoption of “organic” foods is a good case in point). But viewed through the lens of competitiveness, students must be reminded that doing-well-by-doing-good is a theory and, like all theories, its veracity depends on the validity of its assumptions. An unquestioning focus on sustainability as a value proposition—without regard for the preferences of customers—invites more responsive competitors to offer customers what they desire in taste, features, and price. Students (and managers) ignore at their peril one of the central tenets of capitalism: in the absence of government regulations and mandates, customers are always the final arbiters.

As Adam Smith cautioned in 1776, “I have never known much good done by those who affected to trade for the publick good. It is an affectation, indeed, not very common among merchants, and very few words need to be employed in dissuading them from it.” (p. 572)

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. (Consider a recent *New York Times* op-ed, “Capitalists and Other Psychopaths,” in which the author states, “I always found the notion of a business school amusing. What kinds of

¹⁷ A. Rappeport, “Pepsi Chief Faces Challenge of Putting Fizz Back into Brands,” *Financial Times*, March 21, 2011.

¹⁸ S. Storm, “Pepsi Chief Shuffles Management to Soothe Investors,” *The New York Times*, March 13, 2012.

¹⁹ Stephanie Clifford and Andrew Martin, “As Consumers Cut Spending, ‘Green’ Products Lose Allure,” *The New York Times*, April 22, 2011.

courses do they offer? Robbing Widows and Orphans? Grinding the Faces of the Poor? Having It Both Ways? Feeding at the Public Trough? ...”²⁰)

Our national leaders and role models reinforce the undesirability of business. First Lady 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.”²¹

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 can further 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 (Nohria and Khurana, 2008; Trank and Rynes, 2003). This is not a new crusade. 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” (Khurana and Khanna, 2005).

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

²⁰ William Deresiewicz, May 12, 2012.

²¹ David Brooks, “The Genteel Nation,” *The New York Times*, September 9, 2010.

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.²²

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 (no one wants to be operated on by an unlicensed surgeon).

But more important to the arguments of this paper, within any profession, codes of conduct limit competition among members. Members are typically 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 (Siebert, 1984). Because competence cannot be assessed by the untrained public, members of professions 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 (Burton, 1991). (These bans were

²² Owen Young, "Dedication Address," in *Dedication Addresses*, 3-4, reprinted in the July 1927 issue of *Harvard Business Review*. From Khurana and Khanna (2005).

later overturned by the courts as a restriction of free speech, even as the respective professional associations fought to maintain the advertising bans.)²³

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.”²⁴ This prohibition is enforced by the threat of expulsion for those who attempt to compete overtly with other members of the profession.

Executives from Apple, Linux, and many other firms would all be 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.²⁵

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 (Anderson and Escher, 2010). 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]²⁶

²³ In *Bates v. State Bar of Arizona*, 433 U.S. 350 (1977), the Supreme Court first allowed lawyers to advertise their services.

²⁴ 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

²⁵ Randall Stroll, “Our Geeks are Better than your Geeks.” *The New York Times*, June 26, 2011.

²⁶ The wording of the MBA oath was revised in 2010 and 2011, but still includes a pledge to uphold professional management obligations. The majority of MBA students have signed the version of the oath quoted here.

Since it was introduced in 2009, the MBA oath has been signed by more than 7,000 students at more than 50 business schools. As of this writing, over 1,000 of Harvard's graduating MBA students have signed the pledge.²⁷

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” (Doane, 2005).

Under this expanded concept, business executives are asked to assume responsibility for the wellbeing of a wide range of stakeholders by investing in environmental initiatives, 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, in line with theoretical arguments by Phelps (2009), Bhidé (2008), Schumpeter (1950), Knight (1921), and others, 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. 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 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 plum-

²⁷ <http://mbaoath.org/>. Accessed June 26, 2012.

meted, 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. (Clive, 2005)

But then, echoing the concerns of Schumpeter (1950, chapter 13: “Growing Hostility”), the authors dismay over the paradox—given this unrivaled 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. (Clive, 2005)

In the end, *The Economist* conceded that the corporate social responsibility (CSR) 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.” (Clive, 2005)

Business school faculty have been enthusiastic champions of corporate social responsibility. The Aspen Institute recently canvassed 149 business schools to assess the degree to which they offered courses on corporate social responsibility, linked CSR to 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.²⁸ 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 (1) the economy, (2) society, and (3) the environment, or in the alliterative: people, planet, profit (Elkington and Below, 2006).

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, water usage, and carbon emissions), social (e.g., 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" (Eccles and Saltzman, 2011).

Proponents argue that integrated reporting will force companies to address climate change, labor unrest, poverty, and other social issues (Harvard Business School Workshop on Integrated Reporting: 13). 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 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."²⁹

²⁸ The Aspen Institute, Beyond Grey Pinstripes: www.beyondgreypinstripes.org/rankings/trends.cfm; CSR Wire Press Release, September 21, 2011. Harvard did not participate in the survey.

²⁹ IIRC website: <http://www.theiirc.org/about/>

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 allows 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 (Harvard Business School Workshop on Integrated Reporting, 2010, p. 10).

Such corporate social responsibility outreach initiatives have been received favorably by stakeholders and activists who are normally hostile to business interests. Business critic Joel Bakan, author of *The Corporation: The Pathological Pursuit of Profit and Power*, for example, applauds corporate social responsibility as an opportunity for corporate leaders to “lessen their guilt” (Karnani, 2011).

At a national level, France is the first country to pass laws requiring integrated reporting for companies that employ more than 500 employees (Harvard Business School Workshop on Integrated Reporting, 2010, p. 5).

In solidarity with the concept of corporate social responsibility, MBA students 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.³⁰

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 increasingly competitive global markets.

³⁰ See footnote 25.

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, 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, employee diversity, 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 top executives watch, 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.

** ** *

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 nonprofits, renewable energy, and environmental sustainability.

Some observers in the popular press are beginning to sound an alarm. 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” (Brooks, 2011).³¹

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

But attention is limited. If business schools could do it all, none of this would pose a problem. However, in a world of limited attention, choices must be made about where to direct student attention. Emphasizing the initiatives described above diffuses attention and reduces the time available to 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.

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 unfocused, flabby, and lacking the will to win. When faced off against a lean, hungry competitor—like Company B—Company A will lose every time. And, as a Chinese executive noted recently, “Hungry people have especially clear minds.”³²

Innovation to the Rescue

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 (2011: xvii).

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 (Apple, Amazon, and Google are recent examples).

³¹ David Brooks, “The Genteel Nation,” *The New York Times*, September 9, 2010, and “Pundit Under Protest,” June 14, 2011.

³² 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.

It is heartening, therefore, that an increasing percent of business school resources are 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.³³ Harvard Business School has its new Innovation Lab.

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."³⁴

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. The capitalist innovation-machine that Baumol (2004) and others extol is fueled by vigorous head-to-head competition. Successful firms innovate to meet the demands of customers and fend off the attacks of competitors; they don't flee the field at the first sign of trouble.

Innovation is only one side of the coin. To survive and prosper, companies must be ambidextrous: they must be capable of executing their current strategies as they simultaneously innovate and adapt for tomorrow (O'Reilly and Tushman, 2004). Companies that cannot execute today's strategy to create value using current products and services and existing business models and processes will be forced to cede markets to competitors that can, setting in motion an inexorable spiral of decline.

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

³³ Lane Wallace, "Multicultural Critical Theory. At B-School?" *The New York Times*, January 10, 2010.

³⁴ Melissa Korn, "Dean in London Champions Innovation," *The Wall Street Journal*, May 5, 2011.

the savings to innovation, the true source of competitive advantage. (Pisano and Shih, 2009: 116)

They also document the alarming speed with which these offshore companies become dominant competitors once they perfect 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.

Part IV. – Restoring a Focus on Competing to Win

If the concerns raised in this paper are valid—and business schools are unwittingly underwriting initiatives and perspectives that render businesses uncompetitive—should we be worried? Although I have argued that the choice of topics taught in business schools has consequences for competitiveness, some would question this assumption, arguing that the primary value of business schools is not to be found in the theories and lessons taught in their classrooms, but rather in the screening function these schools provide—identifying high potential candidates for prospective employers (Pfeffer and Fong, 2004). Proponents of this view argue that it is acceptance to selective programs that provides valuable information; the content of the education itself is of secondary importance (Spence, 1973; 1974).

Taking this line of reasoning one step further, one could argue that MBA students are by nature competitive (a necessary condition for acceptance to MBA programs) and will compete vigorously regardless of what they are taught. So it may not really matter what topics are taught in America's business schools. Over the course of their careers, students will figure out themselves how to organize and lead businesses capable of winning in highly competitive markets.

But if you assume—as I do—that what is taught in business schools can influence the future of American business, then it may be time to refocus attention on the missing link: competing to win. If business schools ignore this imperative, the most ambitious and entrepreneurial candidates may well choose to not waste their time: they will forsake MBA programs altogether. (Is it a coincidence that the number of MBA applicants fell 22% in 2012—the fourth consecutive year of decline?³⁵)

In today's hypercompetitive markets, students must be taught how to make the tough choices needed to execute winning strategies. Studies by the Economist Intelligence Unit

³⁵ “B-School Applications Decline for Fourth Year,” *The Wall Street Journal*, September 17, 2012.

estimated that companies lose 37 percent of their revenue and profit potential because of poor strategy execution (Mankins and Steele, 2005). Another study reported that employees in three out of every five companies rate their business as weak at execution (Neilson, Martin, and Powers, 2008). It's no wonder, then, that this is the topic that senior executives worry about most. A recent Conference Board survey tabulated the responses from more than 400 CEOs, chairmen, or presidents from 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 (The Conference Board, "CEO Challenge 2010").

In previous eras, MBA curriculums were designed to respond to this pressing need. Until the 1980s, all graduating MBA students completed one or more courses on strategy execution (typically integrative courses with titles such as "business policy"). No longer. Today's MBA programs provide few, if any, courses that focus student attention on this critically important topic: students are taught how to analyze and formulate strategy, but they learn little about how to organize and mobilize resources to execute these strategies.

Not surprisingly, 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 (David, David, and David, 2011). To underline this point, Datar, Garvin, and Cullen (2010), in their detailed analysis and critique of current U.S. business school curriculums, conclude 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 (p. 158):

1. A global perspective
2. Leadership development
3. Integration
4. Organizational realities
5. Creative, innovative thinking
6. Oral and written communication
7. The role, responsibilities, and purpose of business.
8. Risk, regulation, and restraint.

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.³⁶ 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.

³⁶ Many of these changes are catalogued in Datar, Garvin, and Cullen.

As important as these initiatives may be, they do not address *what* business schools are *preaching* and what they are *not* teaching. Business school curriculums have increasingly downplayed the importance of competition in favor of extolling benevolence and virtue. But has the pendulum swung too far? With the constraint of limited attention, has the emphasis on balance, doing-well-by-doing-good, and the quest for enlightenment driven out the focus on competing—the “fire in the belly”—that is the hallmark of winning athletes, winning executives, and winning companies?

Perhaps it’s time to remind ourselves why business schools were created in the first place. *The business of business schools is teaching business*. And successful businesses require an overriding focus on the tough choices needed to prevail in competitive markets.

To re-center teaching curriculums, MBA programs should reintroduce courses that provide students with the knowledge and tools to answer the tough, consequential questions that are at the heart of successful strategy execution: Who is your primary customer? How have you organized resources to deliver maximum value to that customer? How do your core values prioritize the interests of shareholders, employees, and customers? What critical performance variables are you tracking? What actions have you declared off limits? What initiatives will you not support? What strategic uncertainties keep you awake at night? How are you motivating everyone to think like a winning competitor (Simons, 2010)?

Introducing new courses is, however, only one part of the solution. Hiring more faculty capable of—and interested in—teaching such courses will be equally, if not more, important. Business schools are home to many academic disciplines: economists, sociologists, political scientists, lawyers, mathematicians, psychologists, and historians. By some estimates, only a quarter of the faculty at top business schools have business degrees themselves (Pfeffer and Fong, 2002; Keller and Keller, 2001: 443). The remainder—the majority of faculty teaching MBA students—hold PhDs in the social sciences and related disciplines with little or no business experience or training. To compound this problem, faculty with business degrees and/or business experience are in constant demand to staff the lucrative executive education programs offered by all major business schools (Bok, 2003: 84), pulling them away from MBA classrooms.

In redesigning the curriculums of business schools, we would do well to remember the words of Malcolm McNair, a well-known Harvard Business School marketing professor of a past era, who addressed an incoming class of students in 1953:

William James, a great teacher of philosophy at Harvard during the early years of this century, made the useful distinction between people who are “tough-minded” and people who are “tender-minded.” These terms have nothing to do with levels of ethical conduct; the “toughness” referred to is toughness of the intellectual apparatus, toughness of the spirit, not tough-

ness of the heart. Essentially it is the attitude and the qualities and the training that enable one to seize on facts and make those facts a basis for intelligent, courageous action. The tough-minded have a zest for tackling hard problems. They dare to grapple with the unfamiliar and wrest useful truth from stubborn facts. They are not dismayed by change, for they know that change at an accelerated tempo is the pattern of living, the only pattern on which successful action can be based. Above all, the tough-minded do not wall themselves in with comfortable illusions. They do not rely on the easy precepts of tradition or on mere conformity to regulations. They know the answers are not in the book. (McNair, 1953: 1)³⁷

Many are worried that American businesses are losing their competitive edge. So we should ask ourselves: Are business schools training students to be tough-minded, winning athletes for the competitive race they will surely face in the years ahead?

Business schools aspire to educate leaders who will make a difference in the world. This means that, first and foremost, business schools should be educating leaders who can create and manage businesses capable of winning in any market. This is the true path for business leaders—and business schools—to make a positive and enduring difference in society and the world.

³⁷ Based on an address to participants in the 23rd Advanced Management Program.

Table 1: Selected Countries' Share of Global Operating Earnings by Industry Group, 1995, 2005, 2011, and U.S. Change from 1995-2011^a

		Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Telecom Services	Utilities
US	2011	35.23	33.97	25.54	18.82	48.92	29.36	65.34	11.46	3.41	31.19
	2005	25.43	42.53	31.61	28.42	55.38	22.86	59.10	13.43	17.56	15.53
	1995	47.95	42.20	32.90	49.58	54.87	42.87	58.54	29.40	36.70	43.71
	Δ^b	-12.72	-8.23	-7.36	-30.76	-5.95	-13.51	6.80	-17.94	-33.29	-12.52
	$\% \Delta^c$	-26.53	-19.5	-22.37	-62.04	-10.84	-31.51	11.62	-61.02	-90.71	-28.64
China	2011	5.71	2.94	9.27	20.34	3.62	10.28	2.37	5.82	2.13	4.79
	2005	0.52	0.41	7.06	2.40	0.23	3.00	-0.21	3.77	3.70	2.05
	1995	1.24	0.43	0.23	0.28	0.40	1.00	0.69	1.38	0.00	0.94
Japan	2011	6.08	6.33	1.51	5.92	5.56	14.31	6.85	3.79	12.93	-17.85
	2005	22.92	6.53	1.55	7.11	8.03	18.06	12.03	12.59	11.91	8.33
	1995	12.15	8.21	2.50	-21.05	9.94	18.12	27.52	7.91	6.29	6.67
UK	2011	4.39	12.44	11.69	3.54	10.39	3.73	0.99	14.98	9.44	7.94
	2005	8.99	12.27	14.32	9.53	10.44	3.26	1.03	10.78	-27.44	8.87
	1995	13.53	17.62	23.73	18.05	5.61	6.82	4.19	7.05	9.80	13.14
France	2011	5.43	2.23	3.44	3.72	5.07	4.13	1.24	1.26	6.44	9.24
	2005	6.90	4.49	4.54	5.01	3.10	3.51	1.62	1.43	10.47	9.76
	1995	5.61	3.96	3.11	1.04	2.82	-4.65	-10.59	2.82	2.40	1.60
Germany	2011	14.64	1.50	0.01	2.84	3.86	4.89	2.05	4.06	0.68	-1.76
	2005	8.35	1.70	--	3.29	4.25	4.87	1.40	3.64	6.77	9.15
	1995	-0.71	1.15	0.64	5.84	8.36	2.79	0.41	3.71	8.80	6.51
Brazil	2011	0.08	3.63	3.79	4.14	0.22	0.66	0.76	7.96	2.32	11.33
	2005	0.32	1.05	2.79	1.20	0.07	0.41	0.16	6.00	2.25	4.23
	1995	-0.14	1.01	1.73	-2.30	0.02	0.04	0.06	12.36	2.67	-0.26
Hong Kong	2011	1.93	0.59	2.14	7.04	0.07	4.27	0.35	0.64	13.94	4.22
	2005	1.28	0.23	0.87	2.54	-0.06	2.62	0.20	0.10	8.68	3.39
	1995	1.03	0.07	0.00	7.36	0.00	2.90	0.12	0.01	2.79	2.64
Russia Fed.	2011	--	0.49	19.98	2.06	0.23	0.25	--	3.95	2.42	7.29
	2005	0.10	0.35	10.01	0.45	0.01	0.17	0.05	3.85	3.03	1.28.
	1995 ^d	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
India	2011	2.13	1.28	3.14	2.81	1.14	1.74	2.83	3.69	0.68	5.62
	2005	1.34	0.99	2.59	0.85	1.00	1.64	1.63	3.30	0.51	2.81
	1995	0.77	0.34	1.57	0.31	0.15	0.39	0.04	1.47	0.00	0.34

Source: Compiled from S&P, Global Vantage, accessed January 2, 2013.

^a Operating earnings represents income before extraordinary items.

^b Represents difference from 1995 to 2011.

^c Represents percentage change from 1995 to 2011.

^d Data for Russia in 1995 is not available.

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

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