

**Jordi Canals** looks at the main drivers of business schools' success in the 20th century along with some of the major problems and challenges they will have to deal with in the future if they want to remain relevant

# Can they fix it?



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*The many leadership and managerial challenges of the 21st century will sustain strong demand for professional managers and entrepreneurs*



**Business schools are young institutions. They first appeared about a century ago in America, 50 years or so ago in Europe and much less than that in other parts of the world.**

But, generally, in that short time they have had a positive impact on people, companies and society. There is wide experience of the positive effects of their programmes in the lives of many people and the success of many companies.

Some failures and mistakes (including those related to the 2007 financial crisis) cannot hide the basic fact that the effects of business schools in developing professionals and through them fostering job creation, investment, innovation and new firms has been impressive.

In addition, leading business schools have become important paradigms of excellence. Many have globalised education in ways much older and renowned universities have never done.

The many leadership and managerial challenges of the 21st century will sustain strong demand for professional managers and entrepreneurs. Business schools will continue to have a decisive role in educating them and providing society with the managerial talent needed to face these challenges.

While it is true that business schools prospered in the benign economic conditions of the second half of the last century it is also true that their impact on entrepreneurs and professional managers was at least partially responsible for that economic growth in the first place.

Though individual business schools took different approaches, all, both in America and Europe, adopted a similar model that was the key to their success.

This model was based on an academically qualified full-time faculty that carried out relevant research and attracted a high-quality student body. These in turn proved highly

effective recruits inside companies, increasing corporate interest in using business schools as recruiting and training grounds.

The positive experience of both alumni and companies was key in funding business school endowment, particularly in America – an effect that was vitally important to building financially solid educational institutions.

This model has been the linchpin of the success of business schools. Nevertheless, it has created its own problems. Moreover, the business context in which graduates have to work has also changed significantly.

The current financial crisis and the eroding of corporate reputations have given rise to strong criticisms of business schools and their role in those events. For these reasons, business schools will have to change if they want to keep having a positive impact on people, firms and societies.

These criticisms fall into two categories. The first is related to factors external to business schools, mainly the financial crisis, globalisation, and the notion of the firm and its reputation. The second category has to do with internal deficiencies or deficits in business schools themselves.

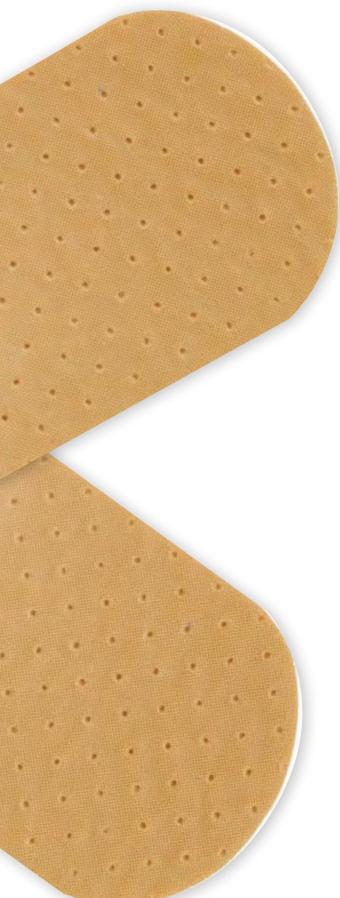
**External factors**

The role of business schools in the crisis

As happened with the dotcom crisis at the end of the 20th century, many are pointing fingers at business schools over the current financial crisis.

Though many MBA graduates did indeed end up in financial institutions, their relative overall numbers were not large. The claim that business schools were the main “feeders” of investment banks is not accurate.

A more important question is whether schools could have provided better frameworks of business and ethics and, more important, better ways of integrating ethics with finance and strategy; or whether senior managers educated in good graduate schools could



have done more to avoid disaster. And, more importantly, whether those graduates could have provided a better example of professionalism and integrity.

**Globalisation**

Together with the current economic crisis, globalisation and its impact on the business world is another area of concern. Many Western companies have failed in their efforts to become more efficient in their international operations.

In this area, business schools have not done a good job in making clear and explicit the specific demands of globalisation, cross-cultural management and the variety of dimensions, experiences, and human and cultural values to be taken into account.

**The crisis and corporate reputation**

The third relevant factor is the serious damage to corporate reputations that has unfolded over the past decade. In many countries, companies used to be admired institutions that created jobs, generated investment and were drivers of progress.

Public opinion in some countries now sees business leaders as opportunists with a short-term focus on their own benefits and privileges and responsible for many of today's corporate disasters.

Business schools have been slow in reacting to these challenges. As institutions educating managers and business leaders, business schools have to rethink the role of companies in society, the job of business leaders and how to include these dimensions in their programmes.

**Internal factors**

Unfortunately, the challenges for business schools do not come only from the outside world. Their own development and success have sown the seeds of serious internal challenges that must be tackled.

There are some areas with major deficits at many business schools: mission, governance, humanistic approach, financial and relevance.

**Mission deficit**

Some business schools do not have a clear sense of mission of the role they want to play in society. It is clear that all of them want to help educate people and develop new knowledge. The question is what balance between those two activities business schools want to have.

There is no single answer but it is nevertheless important to understand why a business school exists and what it wants to do. Each school has its own views but it is good to make them explicit and connect them with its strategy, faculty development, programme design and research initiatives.

**Governance deficit**

Business schools are influential institutions. As such, their governance matters. Unfortunately, academic institutions in general have a poor track record in this area.

There are several levels of governance in business schools to look at.

The first is the relationship between the parent university and the business school, a link that can mostly lead to situations of lack of autonomy, both strategic and financial.

Second is the accountability and powers of the dean and senior faculty. There is no single best model here but it is certainly an issue not always well defined in business schools.

The third is the role of faculty in designing programmes, shaping research initiatives, promoting their peers to tenured positions and shaping the strategy of the school. Good governance requires a stronger faculty commitment to the long-term development of their schools.

Good governance needs to give faculty an appropriate role in business schools, one that neither blocks change nor makes faculty members alienated from the management of the school.

**Humanistic deficit**

In the early part of the 20th century prominent business people believed that companies had a social purpose beyond just making money.

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The creation of business schools through the generosity of major donors was related to the conviction that the education of general managers in a rigorous and ethical way was important for the good of society.

Management and financial theories and the stronger role of capital markets as drivers of modern capitalism have displaced some of those early ideals. Getting results, irrespective of what happens to individuals working in the organisation, has become the dominant paradigm in the practice of management.

The outcome has been the growth of more impersonal organisations where individuals are just one more resource and a rise in employee dissatisfaction. The claim that people are important is stronger than ever; but, in practice, many decisions are taken without considering their impact on people.

Business schools have contributed to the spread of this view by underplaying the role of individuals in organisations and business decisions.

#### Relevance deficit

After the second world war business schools became relevant institutions because they helped tackle a very important need: the education of professional managers and the development of a body of knowledge about the main management disciplines.

In the 1970s and 1980s many business schools became more interested in promoting a type

of research similar to that of other social sciences schools. Unfortunately, this research, even if (or perhaps because) it was adorned with an allegedly superior academic rigour, became increasingly irrelevant to management practice.

A relevance deficit also became clear in schools' programmes. Many top US business schools did not offer executive programmes until quite recently. It was, in part, a matter of choice but also attributable to the lack of faculty interest in working with senior executives on real business problems.

However, the risk of irrelevance in research is smaller when faculty members have to work in a classroom with senior executives. Working with experienced managers stretches the capabilities and expertise of faculty and makes them more aware of real corporate problems.

#### Financial deficit

American business schools used to rely on their endowments to pay higher salaries or attract students and were consequently less dependent on academic fees. In Europe schools had to be closer to the real world with more emphasis on executive education.

In both cases, there is a problem. For American schools the endowment model is good when stock prices go up but becomes a nightmare when market prices fall. For European business schools, executive education is a distinguished undertaking for many reasons but in some cases business schools only do it for financial reasons, which is not the best motivator.

The challenge for business schools is to develop an economic model that can make them sustainable in the long term. There is no single formula. Each school has to design its own pattern. Their development will be one more test of how well a business school is run.

#### New challenges for business schools

There are some other ingredients in the current model of business schools that require additional work. Companies, recruiters and executives expect this. Some have been referred to earlier. Below are highlighted others that have been neglected and are more difficult to tackle: integration, leadership development, a humanistic view of the firm, life-long learning and organisational structure.

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## Integration

The modern firm as it developed was built around business functions: purchasing, manufacturing, logistics, marketing, sales and so on. Over the past few decades, many companies have grown in complexity. Some basic processes can still be managed and run on a functional basis but many others require a more complex organisational design.

Unfortunately, business schools in general have not been very quick to react. Business programmes and research are still based around business functions. This is not wrong. What is wrong is what happens with courses where the reflection, diagnosis and decisions around business problems are considered exclusively from the perspective of the specific business functions (marketing, finance, operations, and so on) not the perspective of the whole company.

Teaching integrated courses is an important step. But helping people think in an integrated way is a transformational experience business schools should aim at.

## Leadership development

An indirect effect of the lack of integration in business education is the fact that there are not many coherent and comprehensive models of leadership development or management.

As with integration and cross-disciplinary, cross-functional learning, leadership development is a complex process. And it is one that many schools leave to the spontaneity of students and faculty.

Moreover, many schools have neither a view of what a senior manager is and what he or she should do nor how to educate for those capabilities if they did know.

## Humanistic view of the firm

The dominant economic and sociological paradigms in management have produced a simplified and warped view of the individual in organisations. It replaces the notion of individual freedom with determinism. Given the right incentives or the right environment, people will always behave in a certain way. And the role of incentives and the environment is to shape human behaviour at the service of organisations' goal of maximising profits.

This assumption is at odds with one of the basic tenets of many companies and management scholars who highlight the importance of these humanistic roots:



people do matter. There is a need to make firms more human, moving beyond the notion of pure efficiency.

## Life-long learning

The explosion of diversity and complexity in all areas of knowledge makes a significant part of the educational process obsolete more quickly than in the past. This is obvious in scientific disciplines such as physics, biology or chemistry. And it is becoming evident in business leadership and management. This requires a commitment to life-long learning and education.

Continuous education and learning is obviously a big challenge. But it also is a great opportunity for business schools. Many graduates are eager to keep learning, develop new capabilities or think about a second or a third professional life. In addition, companies and society need business schools to keep contributing to the development of managers' knowledge and capabilities.

This challenge requires that schools adopt a new strategy, more open to considering undergraduate and graduate programmes as initial steps in a professional development process. They also need to think about executive education programmes not as a portfolio of disparate areas and topics but as a way that may help cover the new educational needs of individuals and companies.

## Conclusion

This article has briefly examined some complex and demanding needs that have an impact on business schools and how their mission is perceived by the business world and society. Business schools alone cannot solve these problems.

Nevertheless, business schools and their faculties have the potential to help address many of them. Even if the challenges are huge, the need for excellent business schools is even deeper today than it was a century ago when the first schools were founded. The opportunities for great educational programmes and relevant research are bigger than ever. gf

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## FURTHER INFORMATION

This article is an edited version of a longer article *Business schools in the twenty-first century: Strategic, organizational and managerial challenges*, a chapter to be published in the book *The future of leadership development: The role of business schools in 2010*.

## ABOUT THE AUTHOR

Jordi Canals is Dean of IESE business school