What does business want from business schools?

What does business want from business schools? The answer is: "exactly what it has always wanted" – great graduates and relevant ideas.

But the qualities required of those graduates and the nature of the ideas that are of most interest to business are both changing radically. The world is undergoing a profound transformation in economic, political and social terms – on a scale and at a pace never seen before. As a result, tomorrow's business leaders are going to need a new set of skills to handle these challenges.

And the question that readers of *Global Focus* have to answer is: are business schools as they are currently structured, teaching programmes as they are currently designed best equipped to deliver them?

Of course, there is no single answer to the question. But my guess is that quite a lot of schools still have much to do to keep up with the game in this fast-changing world. This article concentrates on just four of the qualities that businesses will require of their future leaders in this time of transformation. (There are, of course, many more.)

Sir Richard Lambert suggests four key issues

> *Our understanding of globalisation is becoming much more subtle and nuanced than was the case in an America-centric world*

Embracing diversity

The first, and in some ways the most important, is the ability to manage diversity. Consider this. During the 1990s, just 12 countries in the world generated growth in incomes per head at a pace that was twice the OECD average. In the first decade of this century, that number jumped to 83. Nearly half of the two billion people now getting by on between $10 and $100 a day – the global middle class – live in what the OECD calls "converging economies". (That is, economies that are catching up with the living standards of the West from a low base via turbo-charged growth.)

This has profound implications for global business. So do the massive demographic changes that are already under way around the world.

By 2050, other things being equal, there will be almost as many people in Nigeria as in America; Ethiopia will have twice as many people as Britain or Germany. But the working population of Japan and Russia could fall by roughly one-third over the same period.

The opportunities that all this throws up for business will not be evenly dispersed. Successful leaders of the future will need judgment, imagination and the capacity to work in unfamiliar surroundings if they are to make the most of these extraordinary shifts in global power balances.

In addition, our understanding of globalisation is becoming much more subtle and nuanced than was the case in an America-centric world. We are moving away from the simplistic notion that the world is flat towards a much more complex reality.

That is what today's business graduates need to understand. And to do that they will have to learn to live with and welcome diversity in all its forms. It is going to take a different kind of mindset, and a different type of education, to survive and prosper in such a diverse and cosmopolitan environment.

83

During the 1990s, just 12 countries in the world generated growth in incomes per head at a pace that was twice the OECD average. In the first decade of this century, that number jumped to 83

2

Dealing with uncertainty

The second great quality required of tomorrow's business leaders is the capacity to deal with uncertainty. This did not seem so necessary in the 15 years leading up to the latest financial crash – the period economists describe as "the great moderation", when inflation stayed low, asset prices rose and economies grew steadily just about everywhere. The Cold War was over, the Washington consensus shaped the world economy and the business outlook often appeared as assured as it was predictable.

Nor was uncertainty high on the agenda of most business schools. They were busy promoting the notion of rational economic man and the certainty of modern finance theory and economic modelling. Then things changed.

The great moderation is now well and truly over. The probability is that we will see much more jagged economic cycles in the next two decades than we saw in the last. And today's economic uncertainties are on a scale not seen since the second world war. Consider the euro crisis. The chances of a disorderly breakdown are small but not negligible. But the consequences of such an event would be catastrophic. The euro and the dollar together are the essential lubricants of global trade and finance, accounting for nearly two-thirds of trading in foreign exchange markets worldwide. That is one reason why the result of a euro collapse would be all but unimaginable.

The other is the potential impact on the global banking system at a time when the balance sheets of the world's big banks are so closely intertwined. To take one example, Britain's banks are not directly very vulnerable to the banking problems of Greece. But they are heavily exposed to those in France and Germany, which are. All this uncertainty helps to explain why companies in the developed world are building up vast cash mountains rather than investing their money in new products and services.

Since the credit crunch started in 2007, American non-financial companies have increased the share of their assets held in cash by 50% to around $1.7 trillion. Apple alone has almost $100 billion in the bank – enough to buy Dell three times over. Understandable, perhaps, but is it wise? Would bolder visionaries see today's uncertainty as an opportunity, rather than a risk? Think of the great businesses that have been created at the bottom of past economic cycles. Can business schools help business to think through this challenge?

50%

Since the credit crunch started in 2007, American non-financial companies have increased the share of their assets held in cash by 50% to around $1.7 trillion. Apple alone has almost $100 billion in the bank – enough to buy Dell three times over

The role of government

The third important quality that will be required of tomorrow's business leaders is a proper understanding of the role and workings of government.

Again, this seemed irrelevant during the period of the great moderation. The Reagan/Thatcher reforms had swept away corporatism and the heavy hand of the state and left market forces to do their work. As time passed, it came to seem – at least in the advanced economies – that almost any government interference in the workings of the market was likely to do damage. Now we had once again to learn the old lesson – that markets sometimes fail and that when they do governments have to step in. The British government had to save the country's banking system. The American government – and you have to pinch yourselves when you say this – had to nationalise General Motors, albeit briefly.

Across the whole of the developed world, governments are working on major programmes of new legislation covering the financial system. Energy is another sector coming in for a wave of re-regulation. There are others.

Is this a temporary blip in the workings of free markets? Are we heading back to business as usual, when markets rule and governments only have a bit part to play? Or is the shock of the past few years going to change the way the global economy is managed in some fundamental way? Around the world, we see the growing reach of state-directed capitalism, most obviously in China, but also visible in Russia, Malaysia, Venezuela and elsewhere. According to the *Economist* magazine, state-backed companies today account for four- fifths of China's stock market and two-thirds of Russia's.

The world's ten biggest oil and gas firms, measured by reserves, are all state-owned. And as this form of enterprise advances we see a corresponding loss of confidence in the Anglo-American economic model.

The Occupy Wall Street camps, in their different manifestations around the world, are a small and largely incoherent protest movement. But I think they are a symptom of a broader malaise: a sense that something is not quite right in a world where the average income of the richest 10% of the population in advanced economies is now about nine times that of the poorest 10%. The spread is much steeper than that in countries such as America and Britain. And even in raditionally egalitarian societies, such as Germany, Denmark and Sweden, the income gap is expanding – from 5 to 1 in the 1980s to 6 to 1 today.

“” *The world's ten biggest oil and gas firms, measured by reserves, are all state-owned. And as this form of enterprise advances we see a corresponding loss of confidence in the Anglo-American economic model*

The purpose of business

And so finally to the fourth quality, which is a developed understanding of the role, responsibilities and purposes of business itself.

Here again there is at least a chance that we are approaching a secular and not just a cyclical change in the way this subject is best approached – one that business schools, both in their roles as teachers and thought leaders, ought to be debating and leading. Business management in the decades after the second world war was shaped by what I think of as the Peter Drucker or Dave Packard approach.

The purpose of business was to meet the needs of customers. Firms had to make enough profits to undertake the research and marketing and to retain and develop the talented employees that were required to do a good job for their customers but no more than that. They did not exist for their own sake nor just to maximise their profits. Instead, they were a means to a broader end and they had a real interest in the wellbeing of the different communities that were touched by their activities.

Drucker himself forecast that this benign model would eventually collapse under the weight of two developments: the rise of globalisation and of the hostile takeover. And of course he was right. Gradually, and then with increasing momentum, shareholder value became the driving force of business management, and business schools played an important part in pushing the process on. It brought real benefits, by driving out cost and inefficiencies and focusing on comparative advantage.

Consumers were big winners, as globalisation multiplied the choice and slashed the cost of a whole range of products and services. But there were costs, too. Long-term investment became harder to justify as shareholders' engagement became increasingly short term. Managers were heavily incentivised to maximise the returns on equity rather than on overall capital employed – one of the prime explanations for the banking crash. Companies became detached from their communities, as they shifted their activities to wherever in the world the job could be efficiently completed at the lowest price.

If the return on equity stacked up, actions were justified which would not have made sense in Drucker's world. And people paid a price. We all paid a lot less for our trousers, for our television sets and for our travel services. But the price was rising job insecurity and growing income inequality across the whole of the developed world. And after the economic shock of the past four years, we again have to ask the question: what is business actually for?

And what is the sensible response on the part of business to the largely hostile way in which the public debate is now being framed? In *Rethinking the MBA*, three Harvard Business School professors argue that one thing lacking in many MBA programmes is an understanding of how to balance financial and non-financial objectives while simultaneously juggling the demands of diverse constituencies such as shareholders, employees, customers, regulators and society at large. That is surely correct.

Public concern about high levels of executive compensation, accounting irregularities, and flawed decision making have prompted considerable soul searching at business schools, driven in part by student pressure to have environmental, ethical and corporate responsibility issues embedded in the curriculum.

It is good that business school graduates are rising to this big challenge. But I think academics themselves should be doing more to shape the debate, through their research and their writings.

Today's business leaders are in a difficult place. They are being criticised for their lack of diversity and for their compensation practices. They rank close to the bottom of the opinion polls when it comes to questions of trust and reputation. After everything that has happened in the past few years, shareholder value no longer seems a reliable model on which to build a company's future. And they do not quite know how to handle the politics of a much more uncertain world.

They need guidance. They need big new ideas and fresh thinking about their role and responsibilities. And that, above everything else, is what business schools should be seeking to develop and promulgate today. **gf**

This article is an edited version of the presentation by Richard Lambert to the EFMD Meeting for Deans and Directors General, Nottingham Business School, February 2012

ABOUT THE AUTHOR
Sir Richard Lambert is Chancellor of Warwick University in Britain. He was editor of the *Financial Times* from 1991 to 2001, served on the Bank Of England Monetary Policy Committee 2003 to 2006 and was Director of the Confederation of British Industry 2006 to 2011. He also chaired the *Lambert Review* on the relationship between higher education and business.