



Business for Social Responsibility

New Skills for New Challenges:

Does the MBA Prepare Business
Leaders for Today's Complex
Operating Environments?

May 2006

This report was prepared by Business for Social Responsibility (BSR) based upon background research, extensive interviews and a roundtable of experts hosted by BSR and the Center for Responsible Business at the Haas School of Business (University of California at Berkeley). BSR is a not-for-profit membership organization that seeks to create a more just and sustainable global economy by working with the business community. BSR maintains a policy of not acting as a representative of its membership, nor does it endorse specific policies or standards. BSR publishes occasional papers as a contribution to the understanding of the role of business in society and trends related to corporate social responsibility and responsible business practices. The views expressed in this publication are those of its authors and do not necessarily represent the views of BSR or its member companies.

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It is BSR's intention to design a multi-stakeholder initiative around these new approaches and to work with our colleagues in the public and private sector, academia, and civil society to deliver on a number of the approaches described in this report. To join this initiative or to provide input, please contact: Emma Stewart, Ph.D., Research Manager at BSR (estewart@bsr.org).

Introduction

“Business schools face more competition and more criticism of the quality of their work than they have ever done before. In time, that may lead to fundamental changes in the structure of the business-school market, and perhaps in what schools teach and how they teach it.”

- *The Economist*, May 2004ⁱ

Why do business schools face such criticism about the quality of their work, and what are the main messages behind these critiques? BSR’s Research & Development team has taken a closer look at these assessments from a variety of perspectives in order to better understand the common themes they present. We conducted a literature review, background interviews and hosted a symposium of representatives from business school faculty, companies, students and NGOs to get to the heart of the matter and answer the question: What does the current wave of business school criticism point to, and what are the most promising new approaches to enhancing the MBA degree? This Trends Report is an opportunity to share a summary of this work more widely.

First things first, why is BSR looking so closely at the MBA? We are concerned that the current lack of environmental, social and governance concepts into the curriculum of business schools is a major contributor to the lack of integration of these concepts and tools within companies. To a certain degree, the two mirror one another. Failure to teach our business leaders more about the necessity and advantages that sustainable business approaches hold puts business itself at risk. In a world where tough operating environments are the rule, and expectations of the private sector are ever more demanding, current and future managers must be well equipped to understand and excel. In our experience, companies are struggling to find job candidates who fit this description.

For BSR, working with business schools to enhance the MBA experience can contribute to systematic and lasting change within the business community and to the health of the global economy itself.

A Look at the Trends

In today's global economy, business leaders are responsible for many of the most influential decisions made throughout the world. Such decisions impact the livelihoods, economic well-being, political decisions and environmental health of millions. Increasingly, the MBA is becoming the rite of passage for business leaders to taken on the roles where such decisions are made.

Over 60 percent of today's top business leaders now have an MBA, compared with only 10 percent in the 1960s.ⁱⁱ And the MBA degree is becoming one of the United States' top exports. In China, 40 universities and 21 Chinese-American partner programs now offer American-style MBA programs. In the UK, MBA enrollment grew by 35 percent in the span of five years in the late 1990s.ⁱⁱⁱ In other words, the MBA is becoming an increasingly necessary accreditation for a business career.

Yet, as is often the case with increased prominence, the MBA is now facing increased scrutiny. The old tension between an academic penchant for theory and a business need for practical management training continues to be part of the debate about the value of business school and has since its inception. But over the past five years, critiques of the MBA have flourished and have taken on a distinct theme, namely that **MBAs are failing to provide adequate leadership skills for managing in today's increasingly complex operating environments.**

These concerns come not from advocacy organizations, but from company practitioners, business media, and business school faculty themselves. Articles and editorials are found in the business press, such as the *Financial Times* and *The Economist*, and the academic press, such as *The Harvard Business Review* and *The Academy of Management Learning & Education* journal.

Some business newspapers assert that business schools are partially responsible for the slew of **corporate scandals** in the early part of this decade.^{iv} Indeed, the shifting fortunes of leaders such as Jeff Skilling, the former CEO of Enron, generated much discussion about how a Harvard MBA could turn out to be a corporate criminal. Other business journalists focus on the claim that the accelerating pace of business change, due in part to globalization and technological innovation, has made the “**ever evasive challenge to stay relevant**” even harder for business schools.^v This suggests that business school professors, often seen as somewhat removed from the real world of day-to-day management, may be struggling even more to adapt their teaching to the needs of future business leaders.

While some individuals and business schools have responded to these suggestions defensively, a growing number of business school professors have published their own critiques of the current MBA degree. According to Professors James O'Toole and Warren Bennis of USC's Marshall School of Business, **business schools are “too focused on scientific research ... hiring professors with limited real-world experience and graduating students who are ill equipped to wrangle with complex, unquantifiable issues — in other words, the stuff of management.”**^{vi}

In a 2006 article, Harvard Business School Professor Joseph Baradacco suggests that incoming MBA students today are already familiar with quantitative tools, and feels that these quantitative tools are best learned on the job, either prior or post-business school^{vii}. However, what **MBA students lack, he says, is familiarity with ethical decision-making skills or good judgment.** For this reason, Baradacco advocates a multi-disciplinary curriculum that incorporates scenarios from other fields, including literature, where one can understand the complexities of decision-making and grapple with the line between ethical and unethical.

Going beyond the critiques that consider the MBA too narrow in focus, a recent survey of 2,000 MBA students^{viii} suggested that the degree may be actively making students more narrow-minded thinkers. The study finds that upon leaving school, MBA students cared less about customer needs and product quality and more about shareholder value than they did when entering the program. The mantra of “**maximize shareholder value**” may well be socializing students to become **myopic managers.** The results suggest a need for closer examination of the true impacts of the MBA experience on graduates’ perceptions.

Taken together, these critiques point to a need for business leader training that incorporates:

- More practice in decision-making skills based on complex, uncertain and often unquantifiable matters;
- More opportunities for experiential learning pertinent to today’s business environment;
- A broader understanding of the interdependent nature of business functions;
- More integrated, multidisciplinary pedagogical techniques;
- And a more consistent and cross-cutting emphasis on ethical leadership.

The shortcomings identified by these critiques may impact the ability of graduates to effectively manage without full or quantifiable information, and to deeply understand the interconnected world in which business operates. In BSR’s experience, **this lack of integration at the business school level is a significant human resources obstacle for companies wishing to hire managers capable of understanding and effectively balancing the multiple dimensions of their business, from the economic and political to the environmental and social.**

Indeed, BSR member companies have signaled that increasingly complex operating environments require new skills from today’s managers. They have articulated strongly that they want to have access to MBA graduates who can address questions like:

- How does we grapple with trade-offs when business theories conflict?
- How do we factor (geo)political risks into investment decisions?
- How can we account for negative impacts of operations on nearby communities, if at all?

- What is the best way to predict and plan for increasing scarcity in natural resources such as freshwater?
- What governance structure is the most appropriate for our company?
- How should we prioritize the social and environmental issues that are most “material” to the company?
- How do we maximize the efficiency of production by redefining “waste”?
- How does one negotiate with employees to achieve mutually beneficial resolutions?
- How can we effectively hedge against reputation risk?
- What level of transparency should we aim to achieve in our reporting?
- How should local economic impacts be factored into net present value calculations?
- When is it time to divest from a country with an oppressive regime?

BSR receives these questions from our members in ever greater quantity as companies struggle to find job candidates equipped with the tools to manage these questions successfully.

Many business schools have responded to some of these critiques by creating required ethics courses. In fact, 62 percent of the 69 MBA programs surveyed now offer ethics training as a course in their core curriculum.^{ix} However, one might ask, is this a sufficient response? In fact, the addition of ethics in the way it has been framed in many schools may actually send a perverse signal — that ethics is somehow separate from core business.

According to Professor Ghoshal of London Business School, “If deans really intend to infuse a concern for ethics and for responsible management in the research and teaching that are carried out in their institutions, they have to acknowledge that the tokenism of adding a course on ethics will not achieve their goals. As long as all the other courses continue as they are, a single, stand-alone course on corporate social responsibility will not change the situation in any way.”^x

How to Enhance the MBA?

With these perspectives in mind, let us examine a number of suggested ways in which the MBA might be enhanced.

In a survey of deans at a 2005 European Foundation for Management Development conference, there was unanimous agreement that **“business schools should do more to influence students so that they make decisions and behave in ways that reflect globally responsible leadership.”**^{xi}

A year prior, the United States accreditor of Business Schools, the AACSB, reported that the MBA should provide:

- a) A sophisticated understanding of the influence of political, social, legal and regulatory, environmental, demographic and technological impacts on companies;
- b) Familiarity with legislation and formal programs that support ethical conduct;
- c) Exposure to companies with high levels of integrity and responsibility, countering much of the negative business media coverage;
- d) Dynamic learning opportunities that require integrating multiple perspectives and managing ambiguities and dilemmas at the global and individual level.^{xii}

In fact, multiple surveys have suggested that students themselves are interested in learning skills in environmental, social and governance management. Perhaps surprising to some, the 2005 Economist Intelligence Unit survey of MBA students found that “curriculum content,” “teaching quality,” and “teaching methods” far outweighed factors such “future salary” when it came to picking an MBA program.^{xiii}

Another survey of 69 U.S. MBA programs found that a majority of students were interested in curriculum changes that would integrate concepts of responsible business leadership.^{xiv} Even taking “political correctness” into account, this survey suggests that students see the benefit of enhancing the MBA curriculum to make them stand out as well-rounded job candidates. Doing so helps them select employers they will be proud of, and equips them with the skills necessary to help them optimize financial, environmental and social performance in personally fulfilling careers.

¹ We dare not conclude from this survey that future salary is not a large driver for student decisions, but might consider that students are seeking a unique learning experience that will make them more attractive job candidates. Indeed, once students reach the stage of picking a job, compensation, benefits and job security are generally the top factors.

Visions for the Future

To dive deeper into these issues, BSR convened a number of faculty, companies, MBA students, think-tanks and NGOs involved with or concerned about business curriculum development. Many of the critiques and survey results described here were reinforced by our discussions. We found strong consensus that MBA programs are adequately training students on the traditional technical financial skills, with a narrow and deep focus. But there was also great consensus that the most prominent inadequacy is a failure to produce well-rounded graduates, schooled in an integrated curriculum with elements of environmental, social and governance concepts. Our discussions provoked the following visions for the future of MBA training:

Company managers would like to see...

- Practical experience working through responsible business decision making
- Greater awareness of business tools and principles with social dimensions, like socially responsible investment criteria
- Exposure to an array of models of the corporation, including corporate governance structures and models of the corporation vis-à-vis society at large
- An appreciation for the interconnected nature of business operations with government and community, and the skills to engage these external stakeholders in constructive dialogue

MBA students would like to see...

- Experience in managing the tradeoffs among different business disciplines and among their differing social and environmental impacts
- Skills in communicating difficult messages and decisions, internally and externally
- Practice in crafting integrated strategies for corporate planning
- Exposure to the ways in which public policy and engagement with governments can benefit companies
- Confidence in making decisions when the available data is sparse
- Basic training in the concepts of ethics

MBA faculty and administrators would like to see...

- Interdisciplinary thinking across the current silos of marketing, finance and accounting, operations, organizational behavior, and strategy
- An ability to understand and deal with trade-offs between multiple considerations
- Practice in decision making in the face of imperfect information and under conditions of great transition

NGOs and institutes would like to see...

- Companies addressing the apparent disconnect between what they claim to value in entry level applicants (i.e. honesty and integrity^{xv}) and the characteristics they reward in promotions
- A more “liberal arts” education that takes advantage and integrates courses offered at other schools within the university
- Faculty training to help students grapple with ethical “gray areas”

The common denominator we take away from these perspectives is a desire to see students trained to deal with dilemmas, equipping them with adaptable decision-making skills. So *which new approaches should we take to achieve these visions for tomorrow’s MBA?*

New Approaches

Through our research, interviews and convening, BSR concludes that the following new approaches hold great promise in enhancing the MBA to be more a interdisciplinary, practical and nuanced experience.

1. Bring more practitioners into the classroom

- a. Find real-world, current examples of companies facing environmental, social or governance challenges and bring representatives into the classroom to tell these stories.
- b. Structure classes around negotiations that allow practice in situational decision-making and cross-functional consensus building; have the relevant practitioner observe the negotiation and offer his/her perspective at the end.

2. Create space for students to bring up and work with these type of issues in class

- a. Create talking points for students on the most popular cases. Encourage students to bring up these points in class and in study groups. Provide second-year students an opportunity to mentor first-year students about the cases likely to come up in a particular course.

3. Revamp classroom learning techniques

- a. Hold stakeholder engagement exercises, with students playing the roles of different external and internal stakeholders to provide a sense of the complexity of decision-making when balancing the needs of multiple constituencies.

- b. Hold a media survival training such as those offered within companies. Have students role-play a journalist questioning company representatives about environmental, social or governance problems.
- c. Avoid PowerPoint presentations, which make the class content appear more formalized and do not often encourage debate or nuanced thinking.

4. Co-teach classes for greater cross-disciplinary fertilization

- a. Train and pay one well-respected faculty consultant from each core discipline (finance, marketing, etc.) to guest lecture in a colleague's class. This would offer, for example, a marketing perspective on a finance case, an operations perspective on a strategy case, or an ethics perspective on an accounting case. Doing so would help overcome faculty's hesitation to teach new materials and would introduce competing goals and objectives, such as net present value, long-term value and sustainability, and stimulate discussion on potential trade-offs between two disciplines' perspectives.

5. Introduce new themes and speakers to the MBA orientation

- a. Invite executives who will talk about environmental, social and governance factors as key to core business strategies
- b. Institute a "Capstone" course during orientation that focuses on one project from multiple angles.

6. Offer inter-disciplinary scholarships

- a. Offer scholarships to MBA students planning for careers such as finance or consulting to encourage their participation in classes outside of the required finance or strategy courses.

7. Encourage students to take advantage of the university's offerings

- a. Dismantle barriers to taking courses outside of the business school, or consider requiring students to do so.

8. Support and require experiential learning

- a. Connect students with internships within a company.
- b. Enable students to design and run start-up companies with faculty as advisors.
- c. Assign class projects that require "consulting" for companies on under-researched issues.

9. Enhance the universe of teaching cases by incorporating environmental, social and governance concepts and examples

- a. Add new teaching notes for popular case studies so that faculty members have access to the issues as they relate to core curriculum material. This will prevent people from putting on an “ethics” hat at the beginning of the exercise, and will encourage students to integrate these factors amongst the other considerations in their decision making.
- b. Tailor case studies to the type of classes offered so that faculty will be more likely to teach it. For example:
 - For Marketing: GE’s Ecomagination launch
 - For Accounting: The Enron story
 - For Finance: Unocal’s cost-benefit analysis in Burma

10. Survey students about their values as they enter and exit MBA programs

- a. Gather hard evidence about the possible unintended consequences of MBA curriculums, as suggested by recent surveys.

11. Survey companies to understand the difference between stated recruitment preferences and real-life practice

- a. Survey recruiting companies on how environmental, social and governance skills and knowledge play a role in MBA recruitment and professional growth.
- b. Survey young professionals about why they think they got hired, and survey them again three years later about why they think they did or did not get promoted.

These new approaches, taken individually or together, will help to address some of the concerns we see surrounding today’s MBA. They will have the effect of producing a new generation of well-rounded, ethical business leaders who feel ready and willing to deal with some of the increasingly complex dilemmas faced in the business world.

It is BSR’s intention to design a multi-stakeholder initiative around these new approaches and to work with our colleagues in the public and private sector, academia, and civil society to deliver on a number of these suggested approaches.

We invite you to participate!

To join this initiative or for more information, please contact:

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