

*American Business Education: Past, Present, and Future Trends*

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Abstract

Traditional business education in America through most of the 20th century has been aimed at providing tools for short-term profit maximization within the context of the vertically integrated corporation. However, starting in the 1970's a number of social and economic historical events have presented inescapable challenges to MBA and other business education programs. The first was the breakdown of Fordism and the Keynesian welfare state in the 1970's followed by the explosion of a new wave of globalization. The second was the Silicon Valley digital revolution of the 1990's with its informal corporate culture and horizontally integrated management style. The third significant event was the collapse of Enron in 2001 which, along with other major accounting scandals, led to the introduction of corporate social responsibility (CSR) education. The global economic crisis of 2008 made CSR education even more compelling, and resulted in critical self-reflection in the field of business education as well as economics. Finally, the impending global environmental crisis has reached such a tipping point that business and business education has moved from an adversarial relationship with environmentalists to a new stance based on win-win strategies. It is the aim of this paper to give a detailed analysis of how all these major historical changes have impacted business education, and further to evaluate to what degree business schools may be undergoing a radical reorientation away from purely capitalist aims to more social contract values.

This paper examines American business education in its historical context. It argues that a paradigm shift is occurring in the business world which can be characterized as a shift away from the traditional trajectory of industrial capitalism and further, that this shift is being picked up by and reflected in modern business education. This shift includes a new emphasis on sustainability, stakeholder value over shareholder value, and a deepening sense of social contract. This new stance toward business management may replace the old paradigm which conceives of business education as geared primarily towards profit maximization, i.e., short-term, shareholder profit. This has also traditionally included an antagonistic and often exploitative relationship to labor, and has also had an exploitative relationship with the natural environment. This paper will attempt to appraise and evaluate whether this traditional stance is being undermined and whether or not a revolutionary paradigm shift is in fact occurring within American business education today

Business is the most popular major in higher education. Today, over 100,000 MBA's are granted each year in the U.S.; it is indeed the most popular graduate degree in the world. (Datar 2010, p. 18) Furthermore, 25% of all bachelor's degrees in America are in business. (Amdam 2010, p. 594) Business provides the basic functional skills necessary to run a successful enterprise (no small feat to be sure). Business leaders and entrepreneurs have not only altered the world economy in new directions, but have also profoundly altered the contours of society and world culture (for better or worse, is an evaluative judgment outside the scope of this paper). (Walsh 2011, p. 215) Indeed, revolutionary changes in society and economy and technology seems to be moving into two countervailing directions at once; on the one hand, people with graduate degrees in business and economics have, through greed and avarice and in some cases even criminal malfeasance, led us to an economic credit crisis; they have led us down the path of recession and credit crisis. (Tett 2012, p. 307) On the other hand, one only needs to look at list of some of the top entrepreneurs of modern business history to readily realize that the innovative firms they started have affected the contours of our entire social-economic world in highly creative and beneficial ways, through innovative technology and creative global business management.

Michael Dell: in the 1990's he was one of the first to exploit lower transport and communication costs, thus starting us on the path of extended global supply-chains which characterize modern business and economics today.

Howard Schultz (Starbucks): Starbucks has made the traditional 17<sup>th</sup> century European style coffee house ubiquitous around the globe.

Steve Jobs: facilitated the IT revolution through innovations which brought high level digital communication, entertainment and computing technology for everyone personal use

Mark Zuckerberg: popularized social networking systems (SNS); 1 out of every 12 people on the planet have a Facebook account

Jim Bezos (Amazon): transformed the way we do retail business

Sergey Brin and Larry Page (founders of Google): designed a revolutionary and powerful search engine which has enabled us to retrieve information which previously was unavailable to most mortal men and women.

This is but to name but a few; it's interesting to note that this list, and other lists of key entrepreneurs like Anita Roddick (Body Shop), Sam Walton (Wal-Mart), and Richard Branson (Virgin Group) are business leaders without MBA's or business degrees of any kind. Indeed, the fact that much business innovation has come from people not formally trained in business has not been lost on business educators, who now try to foster innovation and entrepreneurship as an essential part of their curricula. (Datar pp. 256-7)

### **Historical Excursus: Business Education in the Context of the Rise of Industrial Corporate Capitalism**

In the latter half of the 19<sup>th</sup> century, America entered an era which saw the rise of industrial corporate capitalism on an unprecedented scale (usually referred to as the Second Industrial Revolution). Through new technology and new energy sources based on fossil fuels (oil, and coal) industrial production could attain new levels of extraction and exploitation of both labor and materiel never before seen in the history of mankind. Monopoly capitalism and the limited liability corporation transformed America into the richest nation on earth, a status which it still maintains today. The corporation became the multinational corporation in the 20<sup>th</sup> century and, sociologically speaking, became (and still is) the dominant institution of our time. (Kelly 2003, p. 57)

In 1881, the prestigious Wharton School of business at the University of Pennsylvania

was founded, as a way to provide higher level business skills beyond the commercial science courses being offered at the time; the complexity of the new economies of scale demanded it. (Amdam 2010, p. 584) It was explicitly founded in order to address the needs of the American industrial revolution—the need for highly qualified business people to manage large corporations in this new economy based on mass production and economies of scale. (Amdam 2010, p. 581)

Ford Motor Company became the richest corporation in the world in the 1920's, and represented a new type of business orientation called Fordism, which was the dominant business paradigm or model in the 20<sup>th</sup> century, at least until the 1970's. (Kipping 2010, p. 97) This model entails the vertically and horizontally integrated corporation using scientific principles. It was, however, not Ford Motor Co., but Alfred Sloan at GM who developed a management paradigm which heavily influenced American business education throughout the 20<sup>th</sup> century. In addition to the scientific principles and production style of Ford, Sloan introduced the science of marketing, and perfected a model of the vertically integrated corporation with separate operating divisions all under one roof. (Lamoreaux 2010, p. 41) General Motors became the prototypical multinational industrial firm in America, a symbol of America's corporate prowess.

The emphasis on business education was explicitly profit maximization, and by the 1950's, when the United States became the sole global superpower, business education attempted to perfect a scientific approach to profit maximization, using scientific quantitative methods modeled on the RAND Corp. and other scientific think-tanks. (Walsh 2012, p. 522) A core curriculum emerged with a heavy emphasis on the quantitative functional skills for finance, accounting, logistics, marketing, and in addition to that, micro and macro economics for businessmen. At Harvard, the case study method was introduced as the general method of choice, which became the model for many business schools to use for learning how to apply quantitative models and methods to real life business situations. (Rosett 1982:*passim*) Consequently, the American MBA became viewed by the whole world as the premium qualification for executive management. (Walsh 533)

A major crisis hit the U.S. economy in the 1970's resulting in the breakdown of Fordism and the Keynesian welfare state (and the beginning of the end of powerful labor unions). Business schools, however, were slow or failed to react to the new demands of the global marketplace; there was the aping of Japanese management strategies rather than a real serious attempt to develop new business orientations or

conceptual paradigms concerning the foundations of business consciousness. (Kipping p. 100)

In the 1980's, Reaganomics offered a new capitalist ideology, or more precisely, the revival of an old ideology of free market capitalism, but in the guise of a new terminology- the supply-side economics of Milton Friedman: deregulation, privatization, and tax cuts for the investor class (the supply side). In this new ideology, labelled by some "neoliberalism;" the belief that if businesses thrive and GDP grows, all segments of society will benefit because the wealth will "trickle down." Though this theory sounds very charming, in practice, such macroeconomic results were never realized; supporting the investor class through tax cuts and deregulation resulted in greater concentrations of wealth for that class of individuals. At that time (1980's onwards), off-shoring, out-sourcing and a general deindustrialization of American economy led to a downward pressure on wages and the gradual dissolution of labor unions bargaining power. Thus there resulted a shift in wealth away from the working class (who became the working poor), and toward the upper strata of the socio-economic ladder.

So called "trickle-down economics" became a code word for the rise of the business yuppie class in which Adam's Smith classical economic paradigm became reduced to the proposition, "greed is good." The MBA became the new ticket to drink from this well of capital gains (Yau 2012, p. 2); and corporations and people with MBA's generally did well in the 1980's. In 1989, after the Berlin Wall came down, American economic confidence was high, and the American MBA was held in high esteem by business persons all over the globe; other nations began to found business schools based on the American model.

In the 1990's, a technological revolution, the likes of which have arguably never been seen in history, occurred mainly in northern California; the digital revolution which came mostly out of Silicon Valley, transformed the face of the global market place. Silicon Valley venture capital represented a real paradigm shift in many ways. These successful companies were horizontally rather than vertically integrated with a young, casual, intellectual and social conscious orientation. (Graham 2010, p. 360) Many of these start-ups came not from experienced MBA trained executives but from young computer scientists and electrical engineers. Business education was forced to integrate IT skills into their core curricula, but did so without changing the fundamental outlook, which was short-term profit maximization based on scientific-quantitative strategic models. (Walsh 2012)

However, three significant events occurred in the course of business and economic history which reverberated in politics and society and, though at first had little impact on business education, eventually influenced the content and even mission of business education. The first was political; in 1999 the streets of Seattle erupted in violent protests during the WTO Ministerial Conference. At first this had little or no impact on business education; business schools at this time were still influenced by and operating under the assumption of the economist Milton Friedman, who asserted that it was not the role of the business firm to be a charitable institution; it was the role of government regulation to protect the environment and provide social welfare, not corporations. Their economic and legal obligation was solely toward shareholder profit; Milton's supply-side economic theories (enriching the investor class as a way to achieve maximum GDP growth) indeed influenced business schools throughout the 80's and 90's. The influence of Reaganomics (deregulation, privatization, cutting social welfare supports) was still strong in business circles.

Nevertheless the WTO protests in Seattle signaled the beginning of the end of complacency, the raising of awareness, that the attitude of neoliberal economic policies (embodied in international institutions like the WTO, IMF and the World Bank) was good for multinational corporations, but not necessarily for the rest of humanity. The dangers of unfettered capitalism were articulated on the television news for all to see; the American public at large started to become more attuned to the relationship between the activities of large multinational corporations and three detrimental trends: (1) labor exploitation in the third world and developing nations, (2) the increasing concentration of great wealth in the hands of a few nations or individuals, and (3) that much extractive technology was leading to irreversible environmental destruction.

WTO and G7 meeting protests seemed not to have impacted the content or direction of business education in America in any significant way, however, in 2001, an event in the business world did have a seismic effect on business culture and business education: the collapse of Enron. Enron Corporation was listed as the sixth largest corporation in America before it bankrupt in 2001. Along with it, one of America's oldest and most respected accounting firms, Arthur Anderson went out of business, as the result of shady accounting practices, and even outright fraud. This event, and the subsequent collapse of WorldCom, forced a radical reexamination of the way businesses operated in America. (Datar p. 161) Though, from a business point of view, it was primarily an accounting scandal, the Enron scandal led to soul searching about the ethical foundations of the way business was conducted in America, and the way

business managers were being taught. A renewed emphasis on CSR and business ethics began to emerge; no longer were such courses relegated to the backburner of the curricula, they became an essential part of a new emphasis on business leadership. Indeed, many of the top business schools today highlight leadership as a centerpiece of their educational mission. (Datar, pp. 86-89)

Finally, the biggest crisis in economic history since the Great Depression occurred in and around 2008, not only with the collapse of the large Lehman Bros. investment bank, but also the near collapse numerous other financial institutions (like AIG), deemed “too big to fail.” Credit markets around the world froze due to the collapse of the U.S. housing market, in which banks around the world had invested heavily. “Securitized assets with inflated value was seen as a risk-free way to effortlessly create wealth.” (Korten 2013, p. 2) In terms of economic policy, the credit crisis of 2008 resulted in a critical reassessment of the value of deregulation. In terms of business practices, there has been even more soul searching and renewed calls for more training in business ethics and corporate social responsibility (CSR). The spectacle of investment bankers awarding themselves huge bonuses while sinking their own ships, requiring large capital infusions of taxpayer money was becoming unacceptable, not only to the general public, but to teachers at business schools as well.

Thus new courses and a renewed emphasis on CSR emerged in business schools around the world. (Doane 2005, p. 24) However, CSR has been roundly criticized and even condemned from both within and without business education; in no way can be regarded as constituting a paradigmatic shift in business thinking. A clear case in point is Wal-Mart Corp. which has made sustainability a centerpiece of its management strategy, but only because it is good for the bottom line. “CSR strategies may work under certain conditions, but they are highly vulnerable to market failures.” (Doane p. 24) In other words, if, at any time, it turned out to be unprofitable, then the firm would turn away from their green orientation in a heartbeat. At best, it gives a false confidence, implying that issues of social ethical issues can be easily fit into a course curriculum which is otherwise orientated to profit maximization; at worst it becomes a kind of window dressing, an excuse for inaction and even a mask for fraud. Indeed, Enron during its heyday was highly touted for having a strong emphasis on CSR and social concerns. “No one could argue that these types of changes add up to a wholesale change in capitalism as we know it, nor that they are likely to do so anytime soon.” (Doane p. 24)

## **A New Paradigm?**

“....,according to Old Paradigm logic, economic growth will generate the financial assets necessary to correct for related social and environmental harms.” (Korton 2013, p. 3)

The traditional aim of business education is of course, to train students in the basic functional skills necessary to run or management a company. Beyond the core functional skill courses like accounting and logistics, there are other courses which are broader and deeper in that they draw on research from the social and behavioral sciences as well- micro and macroeconomics, human resource management strategy, governance, and entrepreneurship, organizational leadership courses require more than econometric or computational skills. Further, there are a new range of courses in such areas as ethics and globalization, and innovation- courses which go well beyond the purely technical scientific courses of the core curriculum.

Until very recently, in American business education, there was scant attention paid to leadership as opposed to functional skills; in other words, management in its broadest sense over purely business administration. The Yale School of Management in recent years has shifted its curriculum to emphasize the importance of such skills and other schools around the world have followed suit. This has meant “...giving equal weight to instrumental and humanistic aims, rather than casting either as means for the other’s ends. Making the case for authenticity, service, equality, concern for the planet just as fervently as the case for shareholder value maximization. Balancing instruction and assisted reflection, on oneself and on the cultures we live in. Brokering new connections. Stimulating imagination.” (Bennis 2:2005) All of this sounds very much like a fundamental paradigm shift. To what degree have these new paradigm goals been realized? There is no empirical data to support a definitive conclusion on this but some historical trends can be noticed.

The rising importance of these new courses indicates that business schools see their mission as much more than the mere training of profit maximizers (the traditional capitalist aim), and more in tune with what has been termed social contract goals. (Bennis 2005:1) For example, there seems to be a shift in perspective such that business students should not only be trained in issues of regulatory compliance, but in how to contribute to the common good through such things as socially responsible investing and sustainability practices. (HBR Blog, 2012 ‘Unilever’s CEO on Making Responsible Business Work’) However, the question still remains as to whether or not we are witnessing in a truly new paradigm shift away from profit maximization



and models for economic efficiency. Such a paradigm shift would, above all else, be focused on creating real value, not merely stockholder value (Hanauer 2014, p. 33) The focus would not be on compliance to regulation so much as cultivating an attitude *a priori* in which regulatory compliance is not even an issue because it would be the intention of the firm to make products or provide services in sustainable and socially beneficent ways. Indeed, the fact that such firms do exist is evidence of a potential paradigm shift in business; that such firms (South West Airlines, Google) are often used as business school case studies suggests that educators, at least, take seriously the notion that a fundamental re-visioning in business management is desirable. Indeed, not only American business schools, but even more so, European MBA programs explicitly advertise themselves as providing the tools necessary to function in the ever changing global market place which includes social contractual goals such as fair trade, sustainability, socially responsible investing, and increasing stakeholder value. (Mangan 2010, p. 2)

## **Conclusion**

It is clear that business education in America and around the world is undergoing some profound changes. Many of the biggest shifts are related to globalization- the nature of the global market place in the digital age where we see many new emerging markets and an ever shifting ground which is requiring business schools to adapt and develop new, more flexible models which move beyond the core functional skills. (Lurie 2009) The new paradigm which has been emerging in the business world for some time, and is beginning to make its way into business education at various levels is a renewed idea of social contract, with an additional conceptualization that nature is sacred. (Eisenstein 2011, p.392 & *passim*) In other words, we are beginning to see a profound and radical sense of social community and essential interconnectedness. (Rifkin 2009, p.503 & *passim*)

A *Harvard Business Review* blog, piece entitled, “Are Business Schools Clueless or Evil?” by Ganpiero Petriglieri, associate professor of organizational behavior at INSEAD, says that that business schools must share responsibility for the “lapses in judgment and unfettered self-interest that wreaked havoc on the global economy and sank people’s trust in corporations.” (Petriglieri 2012) He goes on to point out that there are two camps of critics- one is those who paint business schools as clueless, distracted by academic theories, and a second group whose criticism is more severe. They see business education as a force of evil, perpetuating an amoral view of the

world, peddling theories that support selfish elitism; the only true moral value in the universe of business being the bottom line. In this context, to conceive and experience nature as fundamentally sacred would indeed be a paradigmatic shift for business. “The monetization and commodification of relationships, competition for individual financial advantage, and abandonment of attachments to place are celebrated as contributions to increased economic efficiency and accelerated development progress as defined by growth in GDP.” (Korten 3)

Commitment to sustainability in and of itself does not constitute a paradigm shift if the primary motivation of such policies is maximizing the firm’s profits. It is interesting to note that Unilever’s CEO, Paul Polman admitted that such an integrated (holistic/sacred) business model which his firm has adopted is not the norm. “Nobody has ever really made that public commitment, and nobody has ever really achieved it. Otherwise, the world wouldn’t be facing these challenges.” (HBR Blog 2012) The dominant paradigm in business and business education closes in on itself- “is incapable of self-correction.” (Korten 5) In business education they may indeed teach students how to establish value added partnerships with NGO’s, but what about in the case where there is no cash value for such a partnership, but rather only because it’s the right thing to do based on a radical commitment to the social and environmental commons?

What would then constitute a real paradigmatic shift in business education and business culture? Below is this writer’s formulation:

Old paradigm: exploitation (of labor)

New paradigm: appreciation (no longer seeing labor as deficit or debit on the bottom line, as is the case with most business education)

Old paradigm: technology is designed to extract from nature useable wealth.

New Paradigm: technology is designed to develop in a sustainable way

Business education needs to move beyond the parameters of cost efficiency metrics to a different vision of business education. As noted above, the innovative entrepreneurs listed above who have changed the world, arguably for the better, do not contain any MBA’s! It’s almost as if business education needs to catch up with these business visionaries who are moving us beyond the parameters of an unsustainable paradigm. Rather than seeing personal enrichment as sacred, realizing ones dependence on and connection with nature (Loy 2007, *passim*) and humanity, and sublimating the quest

for one's exclusive personal gain for the good of the whole, would signal a profound paradigmatic shift.

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