

## Principles for Responsible Management Education Initiative

### Global Trends for the Education of 21<sup>st</sup> Century Business Leaders

#### Dehumanization of Business Management Education

I am concerned that our university system pays far too much attention to the quantitative aspects of managing and not enough to the qualitative or what is pejoratively called the “soft stuff.” Students are taught the intricacies of mathematics, statistics, and computer modeling in order to be able to create the exotic derivatives that are supposed to create perfect models in order to eliminate or minimize risk. They then enter the business world and robotically follow the models as if they came from a supreme being. In recent years, nobody questioned the models and in many cases they were followed without a modicum of human judgment or intervention. Our educational system should have warned students that models invariably fail to keep pace with the creativity of entrepreneurs who are incited to make securities ever more complex and models obsolete.

Andrew W. Lo, an economist and Professor Finance at the Sloan School of Management at MIT says “Innovation can be a dangerous game and the technology got ahead of our ability to use it in responsible ways.” We shouldn’t use the excuse of complexity as a reason to surrender individual judgment. Those of us in the education profession have a responsibility to ensure that graduates understand that there is a human factor in all this, and judgment and experience should trump models. The system never was and should never be about pure mechanics.

On Wall Street computers buy and sell without human interaction, ignoring changing circumstances and externalities that were never factored into the programs. With this belief, we first narrow profit spreads and then increase leverage in order to gain superior returns on investment. And we do this without any consideration of behavioral factors. Eugene Derman, who became a Managing Director at Goldman Sachs is quoted as saying; “To confuse the model with the world is to embrace a future disaster driven by

the belief that humans obey mathematical rules.” But it’s that absolute belief in the model that we teach in most business schools.

I was recently amused when I read about one of the bond rating agencies that was asked about its models that were supposed to reflect risk in the residential housing market. The models reflected various degrees of price increases but had no programs reflecting a nationwide decline in prices. So when that happened, the world fell apart as nobody knew how to react. Even when we teach the qualitative management courses, they are taught in an apologetic manner with limited hours and a lack of seriousness and academic respect. Why learn critical thinking when a mathematical model can be a quick and easy substitute?

We must also teach our students that all the rules and principles in the world won’t help if you don’t have an internal monitor that tells you what is acceptable and what is not, how much risk to take or to avoid and how to escape the herd effect that has so obviously affected corporate management. Just consider Chuck Prince, the former CEO of Citigroup, saying that; “When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you’ve got to get up and dance. We’re still dancing.” They danced until they had to be rescued by government.

By soft stuff, I also mean instructing our students as to how to create a proper culture in their workplace. They have to be taught that culture is more than a word; it’s what a business depends on because it never has the resources to watch everyone, everywhere, every minute of the day. Its culture that acts as a corporate conscience or as someone said, the brake on a formula one car. We have to teach students how to manage subordinates who invariably know more about what’s going on than their supervisors. That’s the way you learn about problems before they become serious. I always believed that solving a problem was far more difficult than avoiding it in the first place. But to avoid it, you have to get critical information that only comes from subordinates who are willing to share it with you because you have won their confidence. But who teaches that?

It remains to be seen if we can teach curiosity and how executives can learn and grow from their mistakes. Isaac Newton said that: "If I have seen further it is by standing on the shoulders of giants." We may have to take

the time to teach our students how to climb on other people's shoulders and how to listen to the sometimes subtle messages that others either don't hear, or ignore.

We also have to take the time and concentrate on the matter of teaching good judgment, a commodity that has been sorely missed in our present environment. Noel M. Tichy and Warren G. Bennis recently wrote; "that If there is good judgment, little else matters and If there is poor judgment, nothing else matters." They also say that "judgment is more important than organization, experience, structure, procedures, and even the infrastructure of the company." We have to persuade students that its judgment that separates the mediocre from the superior and separates modest careers from superior ones.

Good judgment should include addressing the kinds of risks that management should take or avoid. When giving my teen age children driving lessons, I used to caution them about running a yellow light by describing that act as "big risk no reward." There, I was thinking about their health. In business, I talked to our employees about the equation of Risk X Probability=Exposure. Here too, if the risk is high enough, it doesn't matter what the probability is: You can't afford it, as you only have to be wrong once to destroy your reputation or that of the company. Both of these examples involve judgment.

Schools have to both teach and practice leadership for more than public relations reasons. We have to persuade our students that leadership requires many attributes, but it certainly includes hiring people of good character which I always found to be a cost efficient technique. We have to teach proper corporate governance to our students, so that what we are now experiencing can never happen again. While the blame for our present condition can be laid at lots of doors, boards of directors have certainly not distinguished themselves. And if you think about it, what kind of system requires licenses for most professionals, but directors sitting on the boards of our largest corporations need no particular expertise or training to serve. That just can't be right and our university system should help address the problem.

Business courses should be designed to teach the practice of managing in a global economy with varying legal systems, unfamiliar customs and a culture different from that in the home country. They should include environmental studies as students must understand that there will be a world after they leave and they have a responsibility not to consume the resources that belong to their children and grandchildren.

Teaching business ethics should be a requirement so that students understand that in the long run, good ethics are good business. Those ethics courses should be designed to help them preserve their most valuable asset, namely their personal reputation as well as that of their company. This is especially important in what is becoming an increasingly commoditized world.

This is an ambitious agenda, but it is a necessity if we are to prevent what has become a recurring problem in our economy. The free market system is the best available economic system structure, but it needs to be augmented with judgment and ethics so that we might avoid repeating what we are experiencing today. Most disasters are statistically improbable, but they happen more often than we normally admit, and, when they do happen, they can be calamitous. As Arthur Okun once said; "The market has a place, but the market has to be kept in its place." I would argue that judgment and reason help keep it in its place.