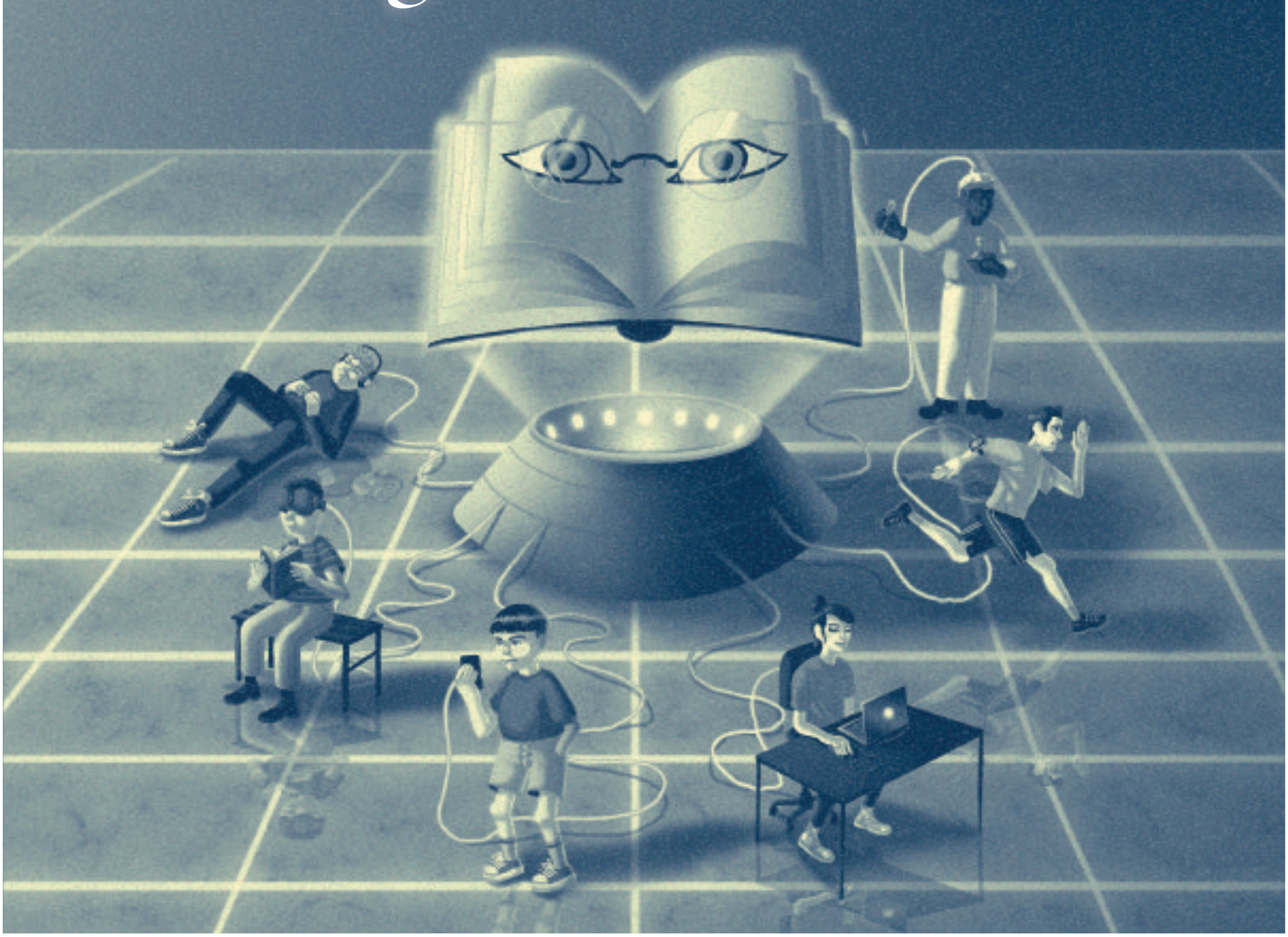
AMBITION

THE MAGAZINE OF THE ASSOCIATION OF MBAS (AMBA) | BE IN BRILLIANT COMPANY | DECEMBER 2018 | £5.99

The Uberisation of management education



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Enabling leaders and their organisations to play a role in the fourth industrial revolution

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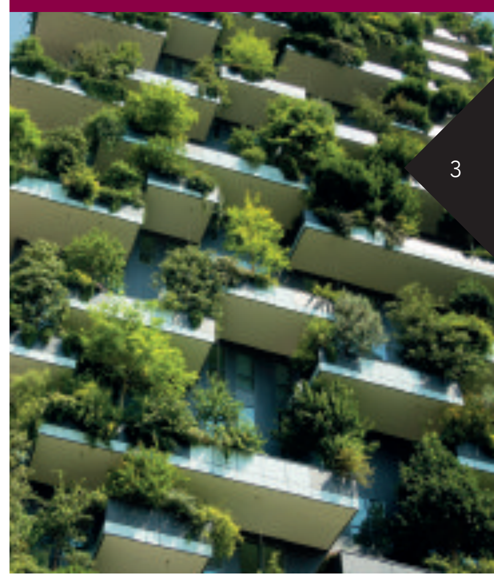

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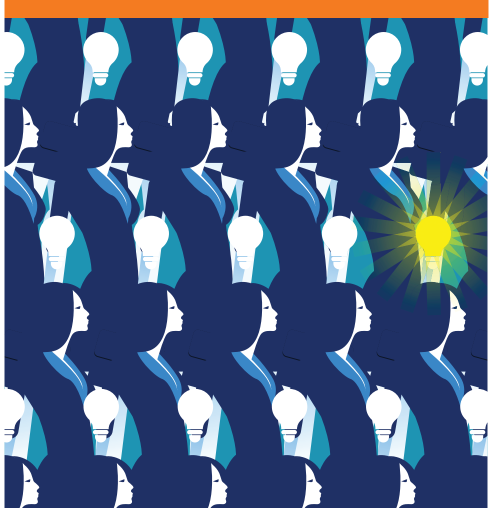


Sustainability
Making today's MBA graduates into sustainability evangelists

Re-designing the MBA:
educating whole system managers

The foundation for the MBA curriculum has to be a fresh set of ground rules devised for a new form of enlightened capitalism, argues **Paul Kearns**

Is now the time to re-think the MBA?

In a world where the very nature of capitalism and corporate behaviour is under unprecedented scrutiny, the intrinsic value of mastering 'business administration' is no longer as relevant or assured.

Teaching concepts such as 'balanced scorecards', 'triple bottom lines' and 'corporate social responsibility' all recognise some of the symptoms of the malaise – but they are not a cure. They reflect the serious disquiet, expressed in many quarters, that the very essence of business today conflicts with the planet's environment and the legitimate expectations of its inhabitants. These fundamental challenges to our global, socioeconomic system require a systemic

'We must acknowledge the demise of the notion that "shareholder value" holds primacy'

solution: one that fully reconciles the needs of all stakeholders, within a virtuous cycle of progress for mankind.

At the Maturity Institute we believe the solution lies in completely re-thinking the purpose of capitalism and the corporation. If our analysis is valid we then have to re-think leadership and management education completely.

SHAREHOLDER VALUE

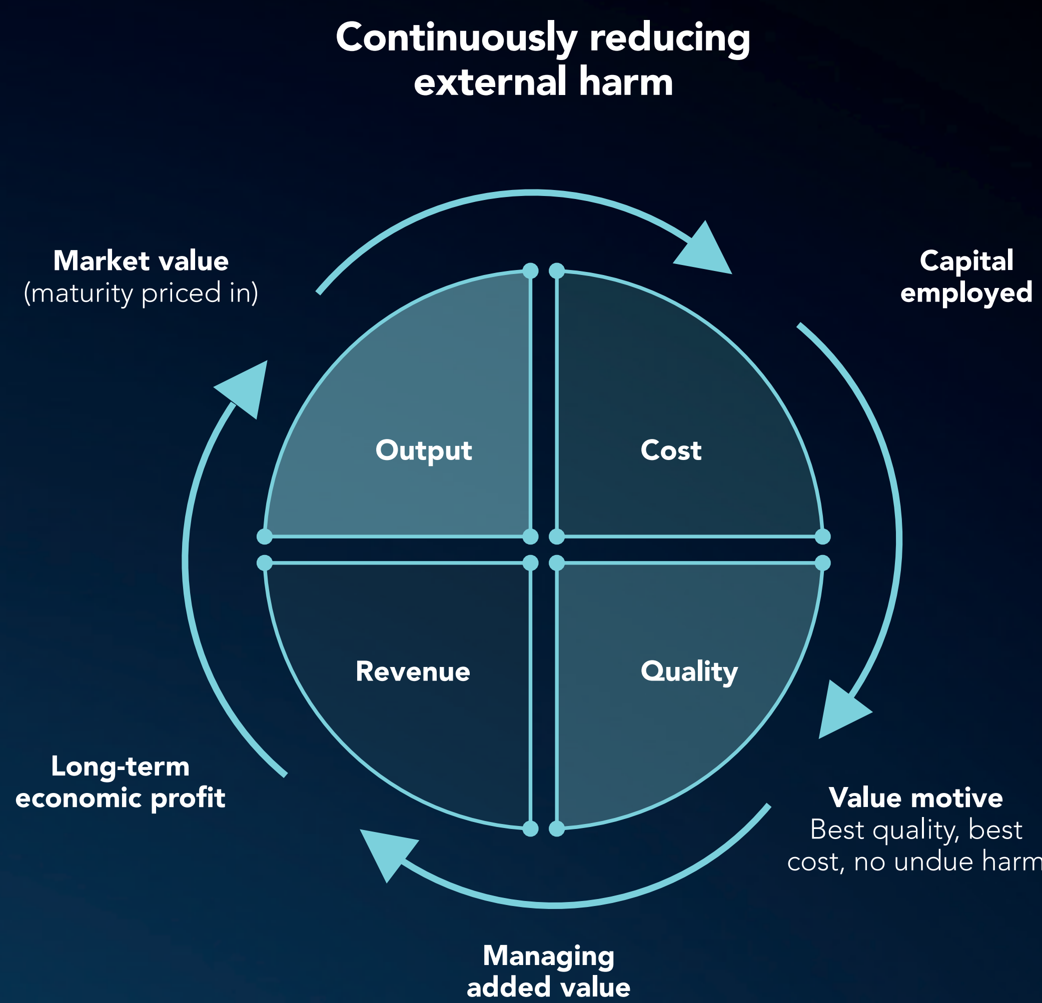
First, we must acknowledge the demise of the notion that 'shareholder value' holds primacy over all other considerations. It should now be seen for what it always was: an empty vessel.

The type of leadership and management shareholder value espoused and incubated can be viewed as a malignant mutation of capitalism, rather than a benign evolution.

If history appoints 2008, and the global financial crisis, as the date of capitalism's demise, then it should also mark it as the beginning of its re-birth. For Business School Deans and MBA Directors who want to subscribe to a paradigm that contains a more enlightened form of capitalism, the time has now come for a more mature outlook. This article is not so much a call to dream up some new ideas for the future of management education but rather to retrace some of our earliest steps.

Back in 1999, before Jack Welch was declared the CEO of the 20th century by *Fortune* magazine, it would have been heresy to question his track record. He had 'succeeded' spectacularly; on his own terms. Whatever his leadership and management philosophy might have been, or his capabilities, he subsequently denounced it 10 years later, when he finally admitted, according to the *Financial Times*, that it was 'the dumbest idea' and that customers and employees should come first.

This does not seem to have deterred Strayer University from trying to attract



'Measures such as earnings per share distort focus, corrupt organisational governance and encourage bad behaviour'

paying customers with the line 'Get ahead with a Jack Welch MBA'. But let us not be distracted by personalities: leadership development and management education are both very serious subjects and demand cool-headed attention to the very best, available evidence.

During Welch's tenure, the value of GE (measured as market capitalisation) supposedly increased by 4,000% (according to *Bloomberg Business Week*) but its actual share price increased from $1.40, on 1 January 1981 to $41.86 20 years later. Actually, that is only a 2,999% increase – but who's counting?

PART OF THE PROBLEM?

Conventional business metrics, benchmarks and indices are a fundamental part of the systemic problem: poor measurement breeds poor management. Capitalism has scraped through, so far, with inappropriate proxies for value; and 'market value' is probably one of the most problematic of all.

This conventional measure only reflects market sentiments at a particular point in time and those sentiments cover a wide range of perceptions from partial observers. Short-term shareholders will only be interested in short-term movements; hedge funds love volatility. Long-term investors will want reassurance that the long-term trend is upwardly sustainable.

Therefore, we must assume that only long-term shareholders have any interest in finding out what substance lies beneath the organisational rhetoric and the veneer of company reporting. Those motivated for the long term want the best of all worlds: evidence of low risks and continuous improvements. It's a difficult balancing act though when business is intrinsically risky and yet has to innovate and change on a daily basis.

Nevertheless, if long-term investors make the wrong call, it is society that loses out. Society wants and needs sustainable business performance, and the wealth it creates, to educate itself, feed itself and look after its own health. Short-termism encourages unhealthy organisational cultures which are anathema to legitimate capitalism.

We should expect any unscrupulous-but-savvy, CEO to be motivated by executive rewards and to take advantage of the current system based on measures that do not capture the totality of their long-term performance. Their own eyes are likely to be firmly fixed on a limited time horizon that anticipates a short-to medium-term exit. Measures such as earnings per share (EPS) distort focus, corrupt organisational governance and encourage bad behaviour. Timing also makes a huge difference to the overall picture portrayed. GE's share price in July 2018 was $13.85; lower than it was in April 1996. Is this the real legacy of Welch's mantra of shareholder value or do we just blame his chosen successor, Jeff Immelt?

Such debates might be of interest but are only useful if we have a common framework for analysis and a set of commonly agreed standards for calibration.

CONSTRUCTING AN EXPERIMENT

So how might a Business School construct an experiment to test a hypothesis of the necessary formula for the most valuable form of leadership and management? We can no longer afford to dodge this question with the excuse of too many variables and the absence of a controlled, laboratory environment. In theory, if a professor of management lined up an infinite number of case studies and an infinite number of metrics, would there be any probability of producing a definitive model? Or would it just be subject to the same theory of improbability that an infinite number of monkeys, with laptops, could produce the complete works of Shakespeare? A capitalist system predicated on such poor odds would never be able to sustain itself.

Maybe this is why Harvard Business School questioned its own 'case' approach and introduced its 'Field Method'.

But has it changed any of the basic rules

'How might a Business School construct an experiment to test a hypothesis of the necessary formula for the most valuable form of leadership and management?'

or applied different criteria of 'success'?

Management education will always be meaningless if the ultimate outcome, in terms of business performance, fails to satisfy the needs of all stakeholders. If executives make up their own rules for acceptable behaviour (for example, selling subprime mortgages to people who cannot afford them or fixing interest rates to serve their own interests) 'education' will be perverted by those who choose to 'game' the failings of the system rather than find solutions.

The foundation for the new MBA curriculum has to be a fresh set of ground rules devised for a new form of capitalism. Business Schools then have a straight decision to make: do you subscribe to this particular set of rules; do you offer an alternative set of rules; or do you have no rules at all?

CAPITALISM IN CRISIS

The editorial team at the *Financial Times* must have thought this logic was sound when, in 2012, they began to raise the debate about 'capitalism in crisis'. They also knew exactly where the debate had to begin; offering their own working definition of capitalism. It stated: 'By capitalism, we mean well-regulated free enterprise economies – systems where resources are governed mostly by the responsible choices of private individuals, within ground rules that are clear, consistent and immune from bias in favour of any special interest…' And finishes by adding '…. capitalism works best when people's free choices are also governed by moral values'.

Behind this short statement lies a socio-economic paradigm based on a philosophy, and political context of liberal democracy: yet, in practice, it is regularly undermined by corporate behaviour that lobbies and misbehaves with impunity. Is this really a definition of capitalism or merely a rough description of how it tends to work in practice? Is it the default version rather than a true capitalist system which has to be based on intelligent, whole-system design?

More importantly, does it offer any practical guidance for leadership and executive management?

This is the starting point for the teaching of the Maturity Institute. Our founders determined, from the outset, that the institute's ultimate purpose has to be the maximisation of societal value. It is designed to be an axiomatic, self-reinforcing, continually improving, perfect cycle to manage the world we live in as a whole system (see diagram, page 35). It defines the mature corporation.

What is more, there is no point having such a clear purpose without an equally clear formula for managing value and an equation that measures progress.

At The Maturity Institute, we developed a simple, composite metric for total stakeholder value (TSV). It turns out this hugely complex concept can be boiled down to a very simple and practical equation:

TSV = (MARKET/BOOK VALUE) X (% SCORE FOR ORGANISATIONAL MATURITY)

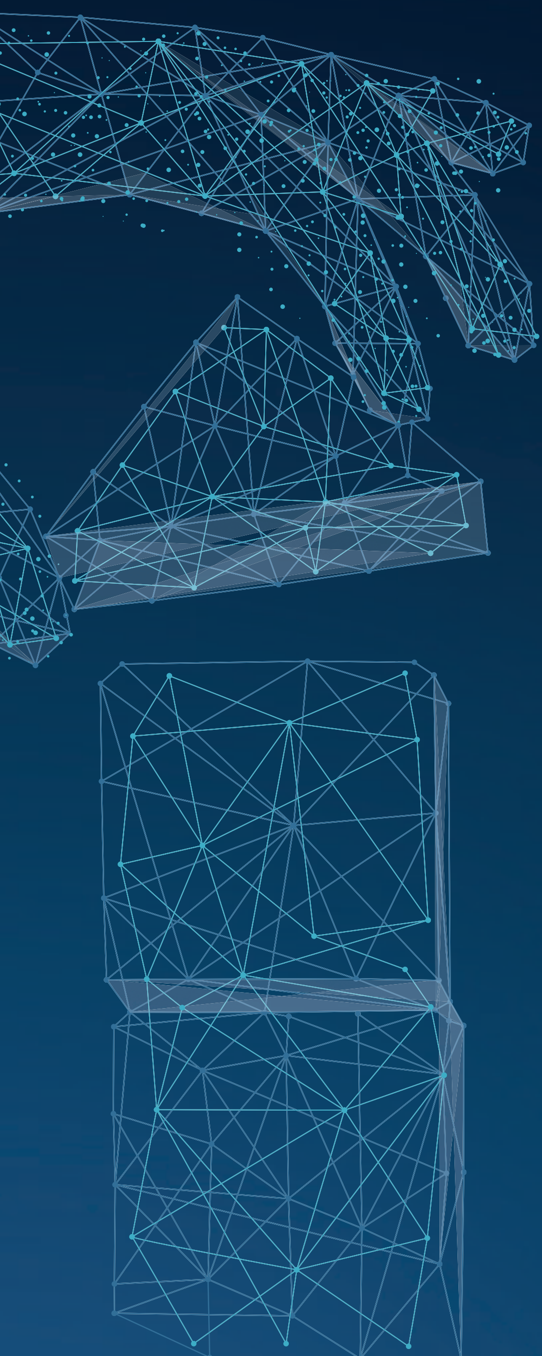
The crucial variable in this equation that has always been missing is the organisational maturity score. This is calculated from 32 questions, which we call the OM30, based on a conventional, strategic framework which incorporates

purpose, values, principles, culture, vision, mission, business planning, operational planning, systems design, and process design right down to the role of each individual who works in, for or with the organisation.

The arithmetic is simple, but the underpinning philosophy of maturity, and its practical application, are much more sophisticated. It is more about the skills of whole-system management than the pure numbers would suggest.

It is also worth noting that a mature methodology has already been around for several decades (arguably centuries) and has been researched and developed from existing practice.

The 'lessons of maturity' had already been learned by Toyota and, to a



lesser degree, a small group of rare, exemplar organisations, long before The Maturity Institute was ever conceived. In these organisations, evidence-based measurement of a broader definition of value is at the core of their thinking and practice. Essentially, they are long-term philosophies that put society first and best serve shareholders' long-term interests.

CHALLENGES IN TEACHING MATURE MANAGEMENT

Teaching mature management encounters one immediate hurdle. Will your immature employer allow you to mature?

This is where the new MBA curriculum is crucial to the future of global capitalism. Even the very best Business School teachers are at the mercy of the organisational environment in which their alumni have to survive. Business Schools have to be able to help their graduates through this minefield if their MBA is to have any chance of translating the price of their education into societal value. The gap between 'knowing and doing' often comes down to sheer greed, personal agendas, organisational politics, conflicting objectives, silo management and just plain old intransigence.

These factors cannot be assumed away in the classroom. Corporate governance has to be taught with a primary purpose of societal value. The economists' model of perfect competition is unattainable so management must make up for what the market mechanism lacks. Accountants have to learn how to measure and factor in organisational culture and other important intangibles in their reporting. There are implications here for every specialism taught on MBA programmes. All teaching staff have to be presenting a coherent and cohesive paradigm that works in the best interests of real world.

So how does the Wharton School of the University of Pensylvania, which was established in 1881 (and calls itself 'the world's first Business School'), rate against this standard?

Wharton currently offers an MBA with 'an intensive, flexible core in general business education, plus the depth of 19 majors and breadth of nearly 200 electives'.

Who knows how it all knits together, as a whole, well-designed fabric?

ESCP Europe Business School also stakes a claim as the world's first Business School, established in 1819. Its French founders were an economist, Jean-Baptiste Say, and businessman Vital Roux. According to a paper on Roux's life and works by Léo Touzet at the Université de Toulouse, in the 1800's, he 'proposed a teaching method to train business people which closely resembles the experiential method central to today's business games'.

It would be interesting to know what the rules were then and whether we should we be teaching through games today; or the tough and cynical realities of corporate life.

PILLARS OF STATE

Joseph Wharton, the founder of his eponymous school, was a Quaker industrialist who started as an accountant and had a '… pioneering vision to produce graduates who would become 'pillars of the state', whether in private or in public life'.

By 'state' he was presumably referring to the State of Pennsylvania. Horizons were very different then, when the US, and particularly Pennsylvania, were powerhouses of industrialisation. Yet it faced many of the same challenges as today; it certainly had a serious water pollution problem.

Perhaps the only thing that has changed over the past 130 years or so, is the scale of the problems rather than their nature. Water pollution is now a global, oceanic problem, caused by a globalised world that is still in the process of growing up and coming to terms with itself. There is currently no 'whole-world government' that is responsible for designing a whole-world system. It looks like our geopolitics are evolving in that direction but there is now a greater sense of urgency, in terms of having to start designing and adapting capitalism to cope.

How might Wharton, himself, have designed it? What specification would he suggest makes a great 'pillar of state' and how would he measure their performance? Would it be on the basis of their ability to maximise short-term shareholder returns or TSV?

'All teaching staff have to be presenting a coherent and cohesive paradigm that works in the best interests of real world'

These are the questions that the Maturity Institute's founders set out to resolve. Our measure of total stakeholder value does not exclude shareholders. It fully reconciles the legitimate needs of shareholders in a paradigm where serving society produces the best returns for all: and we have a growing evidence base to justify that contention. We can now hold leaders and managers to account against measured standards of their own societal legitimacy.

The Maturity Institute's Ten Pillars have not been changed in the six years since we established them and we fully expect them to stand the test of time: but they will change if the evidence suggests they must. I see no reason why Wharton would not have signed up to these pillars back in 1881; except that the society in which he lived was not yet mature enough to adopt them. Society still had a lot of growing up to do.

Meanwhile in France, ESCP was already 62 years old, yet its 'mission and values' today are all about developing its graduates to become '... managers and entrepreneurs.. equipped to lead and inspire in a globalised world.' That might not sound the same as Wharton's mission but the institute sees no conflict or disparity here.

So which Business Schools are willing and able to experiment with this re-design of management education for a mature form of capitalism? Can your curriculum and teaching faculty adapt?

The Maturity Institute does not profess to have all the answers; just an insightful set of questions that MBA students can pore over, absorb, reflect on and inform their thinking and practice. We have made a start on a working model for a whole system management curriculum. It is open source and we invite readers to try it out by working through the OM30.

Paul Kearns is the Chair of the Maturity Institute. He is the Co-author, with Stuart Woollard, of *The Mature Corporation* shortly to be published by Cambridge Scholars Publishing.
The Maturity Institute was established in 2012 as a not-for-profit, professional development body with a declared, over-arching purpose of maximising societal value for the benefit of all. Its members work according to a set of the highest, evidence-based, professional standards.