

Harvard loses its lustre

by Philip Delves Broughton

An MBA from Harvard Business School used to buy entry into the financial and political elite of any country in the world. But as America's economic lead starts to fade, so too does the value and relevance of its most prestigious powerhouse

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In 2002, Jeff Immelt, the chief executive of General Electric (GE), came to talk to students at Harvard Business School (HBS). He was direct and engaging as he paced around the auditorium in shirtsleeves, reeling off stories from his own time at the school and offering all kinds of advice on choosing and building a career. It was easy to see how he had scaled the ranks of GE, one of the most internally competitive businesses in the world.

There didn't seem to be any question to which he didn't have an answer until one student, stumbling over his words, questioned GE's seeming indifference to the political and ethical conditions in countries where it did business, notably China. For a moment, Immelt seemed cross. The question, he said at first, was "above his pay grade." Then he went on to say that the first priority of any American business was to obey the law. After that, it was a question of getting "inside the house" and trying to make change: "I just can't be in the business every day of changing the world. But I can be in the business of making the world I see from GE better." He advised his questioner to "make a difference by getting inside, not by passing judgement on other people."

Two years later, in 2004, I arrived at HBS to begin my MBA course. I saw a video of the exchange and was surprised by Immelt's discomfort. Here was a question he must have faced a thousand times: to what extent should his company, a beacon for global capitalism, engage with the ethical environment in which it operates? The reply he gave was that it was not against the law to do business in China--in fact the US government positively encouraged it--and that providing people with economic opportunities and raising their standard of living was the best way GE could drive change, while at the same time keeping its own (largely American) shareholders happy.

It seemed a pat answer, at best. To shelter behind the law ignores the significant role that corporations have these days in shaping the law. (There are more than 30,000 lobbyists at work in Washington DC alone, 50 or so for every member of congress, all busily chivvying legislators and in many cases actively drafting new laws.) Moreover, recent history is full of examples of governments who have chosen to forgo civil rights for economic growth and stability, from Pinochet's Chile to contemporary China, and been morally stained as a result.

The redeeming aspect of Immelt's remarks was the obvious discomfort with which he gave them. But that final admonishment not to pass judgement reflected a broader distaste among the executive class for all those finger-pointers in the media, NGO and academic ranks. What credibility, after all, did they have sitting in their cosy perches while GE's staff built and sold in the toughest places on earth?

Four years after first seeing the film, I see Immelt's response in a very different light. I see it as presaging both the recent financial crisis and the steady decline of the world's economic superpower. Immelt trod gingerly because even as he was speaking, the days of the arrogant American CEO--accountable only to the law and his domestic shareholders--were ending. The world's big growth stories were already in Asia, Russia and Latin America--even before the onset of the US financial crisis. And since the credit crunch, American business practices have become synonymous, fairly or not, with excessive borrowing and reckless management. The heads of Wall Street's biggest banks are constantly shuttling back and forth to Asia and the middle east, rattling the tin to support their tattered balance sheets. Detroit's once-mighty carmakers teeter on the brink of bankruptcy. America's major corporations and brands still dominate the global economy, but their relative advantage has diminished and they must work harder than ever to keep up. Sooner than anyone imagined, America is paying the price for behaving like "Squanderville," to use Warren Buffett's term: spending beyond its means and getting in hock to foreign governments.

For an institution like HBS, which makes a tidy living selling US business knowhow to the wider world, this decline is worrying. American business prowess is part of the draw for foreign students. HBS doesn't teach a specifically American variant of capitalism. But a big part of its appeal stems from the instinctive respect felt by prospective students, whether from Europe, Asia or Latin America, for a certain American business method--heavily statistics based--versus the more intuitive, culturally varied ways one finds elsewhere. It is precisely this sense of respect that is being challenged by current events.

And while HBS remains a formidable brand in the business school world, it faces a mounting challenge from Asia's rising economies, which are building business schools of their own. America had a near monopoly in business education until the 1980s. Now more than half the world's business schools are outside the US--and around 15 per cent are in Asia.

Roughly 30 per cent of my class at Harvard was identified as "international." A great many of them, however, had grown up in the US, been educated at American universities or, like me, spent time working there. In that sense, it was a rather bogus version of internationalism. Among the international students, many were planning to stay in the US after graduation, at least for a time, to burnish their CVs with stints on Wall Street or at management consultancies. They had not come simply to learn business, but the American way of doing business. The Latin Americans, in particular, believed a Harvard degree was their best ticket into their countries' financial and political elites.

What they found was an institution that sought to accommodate them in every visible way. There were plenty of classes in which we discussed international business problems. There was an "international week" during which students were encouraged to dress in national costume and give presentations about their home countries. There were endless talks on globalisation and mentions of "India-and-China," the great opportunity of our times.

But this apparent internationalism was little more than a veneer over what remained essentially a parochial institution. This was exemplified by the bouncy young woman employed by an eminent Wall Street bank who one day blurted out at dinner that she had never heard about apartheid until that morning's class on South African economic history.

During one class, the head of a major consulting firm came in to talk about the difference between American and European negotiating styles. He compared them to American football and soccer. In one, you move relentlessly forward until you score. Direct, tough, honest. In the other, you flick the ball around looking for an opening before shooting. Sneaky, indirect, unpredictable. A Frenchman in the class thrust up his hand to speak. "Yes, you say this about the different sports," he said. "But a game of American football takes three or four hours, while a game of soccer is over in 90 minutes." Touché. The Europeans laughed while the consultant looked shifty and cross. In another class, an Indian professor recalled a recent visit to Nestlé's corporate headquarters in Switzerland, noting that at lunch he was given a choice of wine! The decadence of Europe's corporations had the classroom convulsed with laughter.

So what should have been an experiment in internationalism all too often ended up as one of cultural stereotyping. During my second year, a group of students carried out a study to find out whether having a British accent helped your grades. Their project reflected a suspicion among Americans on campus that the British students were not as clever as they sounded. Their study concluded that the accent did help. What this all seemed to demonstrate was that internationalism was prized by the school less out of curiosity than as a means to American enrichment.

The school's "America first" attitude seemed at first glance to tally with that of Harvard's most famous MBA graduate, George W Bush. And yet the president's name was barely mentioned on campus. A majority of students claimed to be Democrats, but the general attitude--get government out of the way of business--was defiantly Republican. Bush seemed to be an embarrassment to Harvard, a man with all the tics of the Harvard MBA: big on strategy, general management and making decisions, but with none of the liberal cover.

The school much prefers alumni like John Paulson, a hedge fund boss who made \$3.7bn last year betting on a collapse in the US mortgage market and then gave \$15m to charities helping homeowners fight off foreclosure. (Paulson is heavily involved in fundraising for HBS.) Or Michael Bloomberg, the billionaire mayor of New York, who considers political parties irrelevant to the business of picking up trash and managing public funds. Bush, by contrast, is too bad a businessman and too partisan a politician for Harvard's refined taste.

The most glaring difference between the American and international students, however, emerged during discussions of business ethics. Like all business schools, Harvard was forever pondering how to teach ethics to MBA students, many of whom felt their large tuition payments--not far shy of \$50,000 a year--would be better spent on more finance and marketing classes. Harvard had also taken a large reputational hit from the behaviour of some of its alumni, most famously Jeff Skilling, the former CEO of Enron. In the late 1990s, a job at Enron was one of the most coveted by a graduating MBA. When Skilling visited HBS, he was greeted as a hero, given standing ovations and hotly pursued by professors wanting to write fawning cases about him and his marvellous money-making machine. When Enron collapsed and Skilling went to jail, the reputation of the school suffered.

So in 2003, Harvard introduced a class called "Leadership and Corporate Accountability" to allow students to discuss the perils of chasing dollars down ethical sewers. We were encouraged to "access our moral compasses" and make sure that all this talk of money and power had not diverted us from true north. The first real dispute in this class flared up when we were discussing bluffing in business. In 1968, the Harvard Business Review published a famous article by Albert Z Carr titled "Is Business Bluffing Ethical?" Carr compared business to poker in which bluffing, short of outright cheating, is a perfectly legitimate activity. He said that many successful businesspeople lived by one set of ethical standards in their private lives and a quite different set in their professional lives. The explanation, he said, was that they perceived business not as an arena for peacock-like displays of high ethical standards but as a game with specific rules. Knowing that you could win the game of business playing all manner of tricks which you would never inflict on your spouse, children or friends made for a calmer, less complicated life. But to some, it was an acknowledgement that business was fundamentally unethical.

Sitting behind me in the classroom was an American salesman who had worked in Asia. He harrumphed his approval of Carr's view of business as poker. Across the room was a woman who spent her entire life in the midwest and had a job marketing household products for a large corporation. Whenever an ethical dilemma came up, she was always the first to raise her hand to say that what was most important was "doing the right thing" whatever the cost. If you were in rural China trying to get a factory built, you should under no circumstances offer a bribe, whatever the local norms, because bribery was wrong. If you found out hackers had broken into your credit card system, but stolen nothing, you must tell all your customers immediately. There was no excuse for sitting on the information. You had to be honest and the market would reward you. And even if it didn't, you could sleep well at night knowing you had done the right thing. Nurtured in the bosom of a vast American corporation, the midwesterner had descended upon us as a full-blown ethical jihadist. She loathed the idea of treating business like poker, and argued bitterly with the salesman. He said that you had to bluff sometimes in business to protect your own interests, provided you stopped short of downright fraud.

The American salesman--and the foreigners--I felt, were more frank, less fearful of condemnation, readier to deal with rogues and consequently better equipped to deal in the world economy. The mid-westerner, by contrast, was expressing a classic version of the American view of business. In this vision, Americans set the standards and the norms on ethical issues like bribery and the rest of the world followed. This had always seemed imperious and condescending, as well as hypocritical. Of course, the US didn't have to bribe its way to big contracts; as the global superpower it had other ways to get them. But now, with the US economy stalling and the dollar in decline, this whole attitude just felt eccentric.

One day after one of these classes, I had lunch with a Chinese woman who had become a friend. She was unhappy about the grading system at Harvard, which rewarded people for speaking up in class, almost regardless of what they said. The idea was to get students comfortable with expressing themselves in business terms. "I hate all this stuff about the network and relationships and being able to bullshit in front of other people," said my friend. "That's what we're being trained to do. That's not what Chinese immigrants think business is. We think it's about good ideas and hard work."

It was difficult for her to accept that 50 per cent of her grade was based on what she said in class, not just because she found public speaking so awkward, but also because much of what she heard was so mediocre. She had resigned herself to taking what she could from the classes and filtering out the rest.

She was not the only one to find this immersion in US business practice disconcerting. A friend from the middle east complained that for all its claims, HBS remained east coast and conservative. "It's not really an international school," he told me some time after graduation. "Internationalism was a fad. If Goldman Sachs or other big American companies weren't going big into China, the school wouldn't have been as interested in it." He found the approach to ethics "fundamentally puritanical. It put an American spin on every case. If you tried to apply the frameworks we learned in Dubai or Nigeria, you would never succeed."

More worrying for HBS is that it no longer offers the lure of the biggest post-graduation pay cheque. According to the FT's latest rankings, the highest earning MBAs are not from Harvard--or indeed any US or European school. They took their MBAs at the Indian School of Business, in Hyderabad. Harvard comes in a respectable fifth, but just two places below it is Ceibs, in Shanghai, China's leading school.

The US used to see globalisation as the vehicle for spreading the American way of business. Now it's not so sure. A more multipolar business world is emerging, where Americans won't always set the rules. When the Europeans joined together to set a new international accounting standard for business some years ago, America refused to participate--assuming that global companies would buckle and accept its own standards as the price of access to US capital markets. Now more than 100 countries have adopted the international standard, and the US is trying to find a way to join without losing face.

Declining confidence in the US currency means that the world's central banks hold fewer of their reserves in dollars--down to 60 per cent from a high of 72 per cent in 2002--and more trade deals are concluded in other currencies. Between 2000 and 2005, the number of foreign companies listed on US stock exchanges actually fell--from 960 to 866. And what about those shareholders to whom American corporate bosses consider themselves ultimately accountable? Increasingly they are not sleepy US mutual funds but foreign banks, companies and sovereign wealth funds--institutions run by Asian and middle eastern governments to invest the vast surpluses they ran up selling goods to America during the credit binge. They call the shots now. Meanwhile the Wall Street "miracle"--which actually disguised the weakness of US industry--has ended.

When I graduated from HBS in 2006, 42 per cent of my class went into financial services. (Non-profit and government accounted for less than 3 per cent.) Ray Soifer, an HBS graduate and banking analyst, had been keeping track of the relationship between the condition of the American equity market and the percentage of Harvard MBA graduates going into finance. Ten per cent or less was a buy signal. Over 30 per cent was a sell. The choices of the class of 2006 told you the markets were wildly overblown and soon to crash, which indeed they did.

Also striking was the number of foreigners who went straight home rather than sticking around in the US for a couple of years to gild their CVs, as their predecessors did. The Brazilians hot-footed it to São Paulo, the Indians to Mumbai, the Chinese to Shanghai. Increasingly, they are more valuable in their home markets than in the US.

Now that America's role in the business world is less certain, those questions of globalisation, ethics and political sensitivity which Jeff Immelt once considered "above his pay grade" are now very much his concern. What about institutions like Harvard? It may still be a leading hub for the would-be business elite, but it is possible to see it following the path of some of

the great British institutions that have been challenged by the long decline of Britain's global influence. In this vision, HBS's future could be similar to that of Wimbledon--which remains a great coming together of tennis talent but one where most of the top players come from abroad. The alternative, which is much more sombre, is that HBS follows the path of the great Victorian educational institutions designed to educate the imperial ruling class. Consider the once-swaggering Indian Institute at Oxford. These days it is no more than a dusty library tucked away at the corner of the Bodleian.

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