



Improving management education

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Abstract

Purpose – To present an outsider's view of how management education can be significantly improved.

Design/methodology/approach – Focuses on correcting several obvious deficiencies in courses and degree programs to create highly differentiated educational experiences that are more relevant to student's needs and the organizations that employ graduates.

Findings – Proposes a suite of 11 interconnected improvements as well as a fundamental re-structuring of the MBA program designed to simplify it, provide greater focus, improve relevancy, and impart needed thematic consistency.

Practical implications – Presents 11 practical improvements individual faculty or schools can readily incorporate into existing courses or degree programs. The proposed curriculum for a completely re-structured MBA program can add distinctiveness and expand the value proposition for students and their employers.

Originality/value – The suite of 11 improvements and proposed MBA program curriculum changes offers an alternate route for preparing students for future global business challenges. The proposed improvements are intended to serve as a foundation for discussion and debate, and hopefully future action as well.

Keywords Curriculum development, Master of business administration, Management development

Paper type Case study

Introduction

Recent studies questioning the relevance of management research and education in the USA and their role in the many recent corporate scandals clearly indicate a strong need for improvement (AACSB, 2002; Donaldson, 2002; Etzioni, 2002; Mangan, 2002; Mintzberg *et al.*, 2002; Pfeffer and Fong, 2002; Ghoshal, 2003, 2005; Emiliani, 2004a; Bennis and O'Toole, 2005; Ferraro *et al.*, 2005; Holstein, 2005; Tsurumi, 2005). However, the solutions proposed by most academics and management practitioners are predictable (Andrews and Tyson, 2004; AACSB, 2004; Kochan, 2002): nothing radical, just a few small changes that would have minimal impact among faculty, students, and businesses. Common examples include: adding a course in business ethics; greater emphasis on communication; interpersonal skills and teamwork; industry-specific specializations; team teaching; or re-packaging existing knowledge into programs with glamorous-sounding new names (Bisoux, 2005; Garten, 2005; Gloeckler, 2005).

This outcome should not be surprising because it is common for insiders to have a narrow view of opportunities and consider small changes as acceptable evidence of improvement. These solutions do not address the root cause of the problem, the need for more substantive re-structuring of management curricula, or even the fundamental premises on which modern management education is founded. In my view, management education is in critical condition, and the solutions offered to-date are grossly insufficient and will not yield better educated students. So how would an



outsider – someone not saturated in conventional thinking about management education – see things? With this in mind, I offer my thoughts on how to improve management education, particularly graduate degree programs.

I am an outsider to the world of business school education. My undergraduate, master's, and PhD degrees are engineering, and I have 15 years of industrial management experience in three disciplines: engineering, manufacturing, and supply chain management. One of the things I learned while in industry was the practice of *kaizen*, a structured process for continuous improvement (Imai, 1986, 1997; Emiliani, 2000a). *Kaizen* teams consist of people that know the business process under scrutiny, as well as others that do not. Invariably, the people who are not familiar with the process offer some of the best new insights for improvement because they are not bound by convention. So please think of me simply as a *kaizen* team member from a different school.

After teaching for six years in a management school and having nearly 30 peer-reviewed papers published in management journals, my general impression of management education is that it lacks intellectual rigor compared to what I experienced in my engineering education. While engineering education is also in need of improvement, particularly with regards to human factors such as organizational behavior, leadership, and supply chain, it does offer some useful ideas for improving management education. I found that most management faculty had a remarkably poor understanding of obvious and not-so-obvious cause-effect relationships. Also notably lacking was an appropriate balance of quantitative and non-quantitative data analysis which would help students make better business decisions. Our management faculty was not unique with regards to these shortcomings, as evidenced by the relevancy issues that management education, textbooks, and academic journal publications face (London and Bradshaw, 2005), as well as the many bad real-world business outcomes that we have all witnessed in recent times (SEC, 2005).

This paper identifies and discusses 11 important deficiencies, which if addressed would greatly improve undergraduate and graduate management education. Please note that these areas for improvement are specific and can be acted upon by faculty, either individually or as a group. They are not marketing gimmicks, nor are they abstract notions that lack a clear path for incorporation into curricula. Importantly, they are also responsive to the current and future needs of manufacturing and service businesses, as well as non-profit and government organizations.

What follows is not intended to be a comprehensive prescription for improving management education in the USA. Nor is it intended to suggest that management education is solely responsible for every problem faced by businesses. Rather, it should serve a simpler purpose: that of a general blueprint which management educators can use to begin to make meaningful improvements and perhaps also create competitive advantage. Also, while the items may appear to readers as a list, I present them as a network of interconnected improvements that should not be separated. Cherry-picking a few items that faculty judge to be most important will do little to significantly improve management education and business decisions made by future managers.

Corporate purpose

Often, much time is spent in the classroom discussing what seems to be a very important question: Why do corporations exist? Is it to create shareholder value, or is it

to meet the needs of people? If we just observe the world around us, it should be plainly obvious that it is both (Basu, 1999; Senge, 2000; Kelly, 2001; Mitchell, 2001; Handy, 2002; Emiliani, 2003a; Tsurumi, 2005). However, the issue is typically presented as an either-or proposition, built on idealistic assumptions (Friedman, 1970; Jensen and Meckling, 1976; Jensen, 2000), which creates confusion and uncertainty among business leaders and stakeholders regarding corporate purpose (Allen, 1992; Begley, 2005; Ferraro *et al.*, 2005; Ghoshal, 2005; Grow, 2005; Witzel, 2005; Tsurumi, 2005).

So ask one simple question: “Who created the corporation?” The answer, of course, is people. So it seems logical that business should broadly satisfy human needs as well. Indeed, the very equation used to calculate shareholder value (shareholder value = corporate value – debt) indisputably acknowledges the existence of stakeholders and the human-economic purpose of business (see Appendix) (Emiliani, 2004a). Value stream maps, which are pictorial descriptions of the process used to create a product or service, do so as well (Rother and Shook, 1999; Jones and Womack, 2002; Maskell and Baggaley, 2003; Emiliani and Stec, 2004).

Rather than debate corporate purpose, a more productive classroom discussion would be to understand the difference between a corporation’s intrinsic (i.e. inherent or natural) purpose and extrinsic (i.e. extraneous or man-made) purpose (Emiliani, 2003a). The long history of trade and the corporation (Micklethwait and Wooldridge, 2003) – topics that sorely need to be taught in business schools – clearly show the intrinsic purpose of the corporation is to satisfy both human and economic needs (Basu, 1999; Senge, 2000; Kelly, 2001; Mitchell, 2001; Mintzberg *et al.*, 2002; Ellsworth, 2004; Tsurumi, 2005).

It seems many academics, in the absence of critical thinking, prefer to advocate a naïve and simplistic corporate purpose neatly summed up by the popular phrase: “maximize shareholder value”[1] (Friedman, 1970; Jensen, 2000; Deutsch, 2005), typically in the short-term (Senge, 2000; Cassidy, 2002; Kay, 2005; Gore and Blood, 2005). However, this is reasonable only under very limited circumstances. For example, if I sell my home or car – a one-time event – then it is sensible to try to maximize value for me, the owner. But if my business enjoys viable continuing operations, then it is not sensible to maximize value in the short term because I risk damaging the long-term customer-satisfying and wealth generating enterprise that I have created.

Legal decisions in the USA regarding corporate ownership over the last century have typically favored shareholder’s interests (Allen, 1992). This has compelled most academics and managers of large publicly-owned corporations to adopt an extrinsic interpretation of corporate purpose – one that strongly favors shareholders’ economic interests (often short-term) over all other stakeholders’ economic and non-economic interests. Board members who subscribe to the extrinsic interpretation compel top managers to follow what appears to be, on the surface, a much simpler path. But it creates a problem that agency theory – the study of differences in motives and behaviors between company owners and agents hired by owners to manage the company (Jensen and Meckling, 1976; Jensen, 2000) – will never solve. It is akin to saying that as a person, I favor my eyes above all else. Therefore, I do not care if I lose a leg, or if my hearing fails, or if my heart stops beating. People need all of their parts to fully function, and likewise a business also needs all of its stakeholders to fully function. To think otherwise is a logical fallacy – i.e. an error in reasoning.

Academics and senior managers who faithfully insist the purpose of a corporation is to maximize shareholder value should recognize that this can be realized in more than one way (Emiliani, 2003b; Tsurumi, 2005). There is the literal way, i.e. purely financial (naïve and simplistic); or the non-literal way, i.e. financial plus many other important factors such as market share, quality, service, innovation, etc. (realistic and challenging). Both interpretations are valid with regards to the fulfilment of legal responsibilities by corporate directors. However, only the latter is sensible in practice, ethical, and morally defensible (Emiliani, 2000a; Skapinker, 2005). And only the latter is worth the very high prices paid for ordinary executive labor in recent years (Hymowitz, 2005).

Business principles

One strong feature of engineering education is that the various disciplines contain clearly articulated principles which students, and later engineering practitioners, closely follow. They adhere to principles in the actual practice of engineering because they have been tested and shown to ensure favorable outcomes. When principles are not adhered to, the results can be catastrophic. While some of the principles are approximations or may not be perfect (e.g. the use of safety factors), there is little or no argument among engineers as to their usefulness in supporting good engineering practice.

The question is: does US management education lead to a similar outcome? It seems that it does not. Top managers can adopt whatever business principles they desire, be they wholesome and balanced among stakeholders (Toyota, 2001; Liker, 2004) – or amoral and skewed to benefit of a single stakeholder (Jensen, 2000; Mitchell, 2001; Cassidy, 2002; Skapinker, 2005; Tsurumi, 2005) as long as the Board of Directors agrees and employees or other stakeholders do not make a fuss. To teach an important profession such as management in the absence of well-articulated business principles designed to ensure successful outcomes, or to promote clearly defective theories whose application by managers systematically marginalize the interests of key stakeholders is reckless (Grant, 1991; Cassidy, 2002; Etzioni, 2002; Mintzberg *et al.*, 2002; Ghoshal, 2003, 2005; Ferraro *et al.*, 2005; Tsurumi, 2005).

Consider the broad-based allegiance among business school faculty to the shareholder supremacy model of business. Recurring financial scandals and breaches of ethical conduct illustrate the great difficulty that senior managers have when business decisions are based on the concept of shareholder supremacy. While it may appear to be sensible in theory, its use in practice results in many unintended consequences that harm investors, as well as employees, suppliers, customers, and communities.

Instead faculty should adopt a balanced “human-economic” approach to business using general principles that are best articulated by the Caux Round Table Principles for Business (Caux Round Table, 1994). While there are many third-party expressions of business principles (COC, 2005), the Caux Round Table Principles for Business is preferred because it was developed by business leaders and includes all key stakeholders. These principles, used in their entirety, should serve as the basis for teaching and scholarly inquiry for all business research and education (Emiliani, 2004a). The document is available online, and can be easily used by faculty as a stand-alone item or as a supplement to any textbook, case study, or other teaching material.

Using the Caux Round Table Principles for Business would send many unmistakable messages to students, including the existence of stakeholders, the inappropriateness of making destructive tradeoffs between key stakeholders (Okuda, 1999), and the purpose of business beyond creating shareholder value. Unfortunately, no business school anywhere in the world has yet subscribed to the Principles for Business to guide teaching and research (AACSB, 2004; Young, 2005).

Problem recognition

Strategic and tactical errors are common in business and typically repetitive in nature. They are often caused by faulty internal communication, incorrect theories or assumptions about business, and incorrect application of new improvement methodologies such as six-sigma (Finkelstein, 2003; Ferraro *et al.*, 2005; Ghoshal, 2005; Tsurumi, 2005; White, 2005). While the managers who make these errors and the companies they work for change over time, the types of errors remain largely the same. The most common recurring tactical or day-to-day errors are presented in Table I. The question becomes, then, why are the same or similar errors repeated? Shouldn't management educators teach students how to avoid the common errors that they will likely encounter when they become managers? Of course we should, but instead most educators are content to let students learn these lessons the hard way and at great personal and business expense.

Students should be taught how to recognize a problem, how to formally identify the root cause of a problem, and how to identify and implement practical countermeasures to prevent recurrence (Emiliani, 2004a). This may sound trivial, but it is not. Incontrovertible proof that managers are very bad at doing these three things, especially the first one, can be found in what are called "current state value stream maps" (Rother and Shook, 1999; Emiliani and Stec, 2004)

These simple diagrams show, among many other things, the total time it takes to fulfill a customer requirement and the time it takes to create value that end-use (i.e. cash generating) customers are willing to pay for. Current state value stream maps typically reveal that weeks or months of lead time are needed to perform only a few minutes of value added work. This situation often goes uncorrected for decades, through generations of senior managers, and thus proves that management has great difficulty recognizing problems (Emiliani and Stec, 2004).

In addition to teaching students how to recognize problems (Spear and Bowen, 1999; Spear, 2004), students should leave each course knowing the top 10-15 most common errors made by managers in that discipline or knowledge area.

Root cause analysis and countermeasures

Managers use many different tools to analyse problems and identify potential solutions. However, while the problem-solving tools may identify various causes, they do not usually identify root causes or illuminate cascading cause-and-effect relationships. Thus, solutions indicated by the tools used will typically address only symptoms, which can then lead to repetition of the same or similar problems in the future (Table I) and further consumption of valuable resources. The capability to rigorously identify root causes using formal methods – versus casual identification of seemingly related causes and then naming one cause as the "root cause" (e.g. Grossman, 2001; Kochan, 2002) – and also identify countermeasures to eliminate

Stakeholder	Management error
Employees	Unpaid labor; unfair pay; uneven pay (exec/non-exec) Elective layoffs Cutting benefits; uneven benefits (exec/non-exec) Discrimination; harassment Unsafe workplace – physical and mental Ignoring employee suggestions
Suppliers	Avoiding or cutting payments; debiting suppliers' accounts; pay to play Squeezing suppliers margins Ignoring supplier suggestions
Customers	Channel stuffing Incomplete disclosure of terms; withholding information from customers Bid rigging Ignoring customers and their complaints Profile-based pricing; non-uniform pricing; tying; overcharging; hidden fees; stealing Consistently poor quality products or services
Investors	Inflating earnings; hiding debt; self-dealing Failure to respond to the competition Lack of new products or services Incomplete disclosure; withholding information Overpaying when buying companies, consulting services, executive labor, perks, etc
Community	Plant or office closings Tax evasion; reincorporating offshore Damaging the environment Incomplete disclosure
Competitors	Predatory pricing Antitrust violation False or misleading advertising Acquiring competitor's proprietary documents
All	Power-based bargaining Not understanding the problem Blaming people Politicizing the workplace Conflicts of interest

Table I.
Common errors made by
senior managers

Source: Collected from hundreds of articles in *The Wall Street Journal*, 1999-2005

repeat errors should be considered a basic managerial skill and included in managers' overall problem-solving tool set.

A second strong feature of engineering education is that it is common for students to take one or more courses in failure analysis. In these courses, engineered components or structures that have failed are studied to determine the root cause of failure. These are popular courses whose teachings students typically remember for a very long time. However, with rare exception (Argenti and Finkelstein, 2006), there is no analogue for these types of courses in business schools (Doria *et al.*, 2003).

Nor are formal root cause analyses typically conducted within individual business school courses (Doria *et al.*, 2003). A non-scientific but detailed review of course syllabi

from several top business schools, dozens of conversations with faculty, and feedback from several hundred of my adult working professional students confirm this observation. The absence of formal root cause analysis across the curriculum appears to be due in part to there being no requirement for it (AACSB, 2002, 2005) and misunderstandings. Like most other people, business school professors think that root cause analysis is applicable only to technical manufacturing or engineering problems, and not for human resource, finance, or marketing problems. If a finance or organizational behavior professor never came across root cause analysis while pursuing their advanced degrees over many years, then it must not be relevant. In general, I find that both faculty and managers have other misconceptions, such as root cause analysis takes a long time to do or is a chart-making exercise. Or they may think, incorrectly, that root cause analysis of business problems is harder to do or more complex than for engineering problems.

Because formal root cause analysis is widely marginalized, students graduate from school not knowing how to determine the root cause of business problems. Not surprisingly, when managers encounter problems in business, they typically address the symptom and not the cause, and are thus likely to encounter the same error again at a later date (Table I). I know of no senior manager at a major US corporation that personally engages in formal root cause analysis. If the boss does not think it is important, then the workers won't care about it either.

As educators, we must admit that it is bad for our graduates to repeat the same errors made by others before them (Emiliani, 2004a). It is indicative of a truly poor quality education, unmentionable as it is. Imagine engineering graduates who design bridges that keep falling down because they ignore errors made by their predecessors. We would not consider these engineers to be well educated. Failed companies such as Sunbeam, Warnaco, Rite-Aid, Arthur Andersen, Enron, K-Mart, WorldCom, etc., are the business equivalent of the engineer's bridge that has fallen down. We should not consider the leaders of those businesses, our former students, as well educated either. We must take more seriously the negative consequences of one-time and repeat errors on employees' careers, customers' experience, corporate financial and non-financial results, and other important factors such as supplier and community relations.

The root cause of most business problems can be understood more completely by using two additional tools: "5 Whys" (Ohno, 1988) and "cause-and-effect" or "fishbone" diagrams. This should be part of every course, as students' skills in conducting root cause analyses will improve with practice. Understanding the root cause of problems is very good first step, but an equally important task is to identify practical countermeasures to prevent recurrence. I find that students (and managers) are capable of identifying theoretical or high-level countermeasures, but not good at identifying specific, practical countermeasures to implement at the exact point in the process where the error occurred. This is something that must be taught, and improvement comes with practice.

Organizational politics and blame

In order to succeed at problem recognition, root cause analysis, and the identification and implementation of countermeasures, the leaders of an organization must be willing to confront and admit errors. However, most leaders are not good at this. They prefer to hide errors and blame other people, often engaging in elaborate organization politics to

obfuscate (Argyris, 1990) – instead of focusing on improving the products and services that customers want to buy. These defensive routines are supported by mental models which are created by observing the day-to-day behaviors of leaders in organizations.

As educators, we should teach students that improvement is a human-centered activity, and that it is impossible to improve business processes if people will be blamed by managers for trying new things and possibly failing. While it is easy to understand why people engage in blaming, we must ask a simple but deeper question: “Who benefits from blame?” Does blame make customers more loyal? No. Does it make employees happier? No. Does blame create value? No. Does it speed up information flow? No. Does blame enrich the corporation? No. If blame has no benefits, then why do it?

Organizational politics and blame need to be exposed by all faculty members, regardless of discipline, for what they really are: waste, which is defined as: activities that add cost but do not add value (Ohno, 1988; Emiliani, 1998, 2003b; Emiliani and Stec, 2004). Too often educators present organizational politics and blame as necessary evils and whose effects can be mitigated by “growing a thicker skin” or through organizational behavior or organizational development interventions – when in fact organizational politics and blame serve no useful purpose (Pearson and Porath, 2005) and can be eliminated. Students can be taught how to do this by using value stream maps, but in a novel way: as a diagnostic tool to reveal the strong linkages between leaders’ beliefs, behaviors, and competencies (Emiliani and Stec, 2004).

Business leaders that establish and adhere to a “no-blame” policy will encourage the detection, elimination, and prevention of errors and at the same time dampen or eliminate destructive blame and organizational politics (Emiliani *et al.*, 2003). Management concern about the physical safety of employees is highly commendable, but their lack of concern over employee’s mental health and safety, and stress-related illnesses represents an enormous improvement opportunity. Faculty can do a better job emphasizing these important points to students. Specific step-by-step methods for doing diagnosing and eliminating organizational politics and blame have been previously reported (Emiliani, 1998, 2003b; Emiliani and Stec, 2004), and can be easily incorporated into the curriculum.

Results-only focus versus process and results

A common management slogan is: “It’s only results that matter.” It is possible that this slogan sprang entirely from management practitioners, but it is likely that educators contributed to its allure because it sounds good. But if instead this slogan leads to decisions and activities that hurt a business and its key stakeholder much more than it helps, then shouldn’t students be made aware of that? How can this happen? Often, this slogan degenerates into an unhealthy results-at-any-cost mentality among business leaders. Students, when confronted with the many direct and indirect problems associated with having a strong results-only focus readily appreciate and accept how having a balanced process and results focus leads to better and more consistent outcomes. The most convincing evidence for students are real-world examples from business periodicals such as *Financial Times*, *The Wall Street Journal*, *The Nikkei Weekly*, or by using specific examples from their own workplace.

Knowing business processes in detail is very important and should matter greatly to senior managers for two reasons:

- (1) if the process yields bad results, then they would want to stop the bad result from happening again – without blaming people; and
- (2) if the process yields great results, they would want to share the process with other people in our business so that they can reliably repeat favorable outcomes.

Either way, understanding the process is the baseline from which improvement takes place to achieve results (Imai, 1986; Ohno, 1988). If we do not know the process, then how can anyone be sure that something called an “improvement” really is an improvement?

Understanding business processes in detail results in less variation in product or service quality, lower costs, and shorter lead-times (Imai, 1986, 1997; Womack and Jones, 1996; Rother and Shook, 1999). *Ad hoc* problem solving focused on symptoms rather than root causes drains resources from organizations and slowly erodes their competitiveness. A countermeasure would be to teach students – in every course – the importance of understanding all business activities as processes, and how to utilize systematic approaches for process improvement that yield tangible results. If this is not done, many students will leave school thinking activities in operations consists of processes, while those in marketing, finance, or human resources do not.

One simple yet very powerful tool is value stream maps, which help people understand any business process and how to improve the flow of material and information (Rother and Shook, 1999; Jones and Womack, 2002). These maps invariably point people towards identifying simple, low-cost solutions to challenging problems, rather than towards expensive new software, machines, facilities, or additional headcount. They encourage people to spend ideas, not dollars – and thus contribute to more effective utilization of valuable human resources.

Value added and waste

By focusing on the process, people will begin to question all activities that are performed to fulfil a customer request (Ohno, 1988; Womack and Jones, 1996). They will say:

- Does this activity add value that end-use customers are willing to pay for?
- This work adds no value but needs to be done. We can't eliminate it – for now.
- These activities are waste. All they do is add cost. They can be eliminated.

It should not be a surprise that people who are focused on results never think of work activities in these three ways. They do not make any differentiation between value-added work and activities that are waste (Ohno, 1988). As a result, managers and workers spend much of their time creating and managing waste because to them it appears to be important work. But it is not. The formal definitions of value-added work and waste should be understood by all faculty, and faculty should teach these to students because they are critical to the long-term success of a company.

Invariably faculty, like any other person who is not aware of what waste is, will think that there is no waste in the business processes that encompass their knowledge area. Nor will they think there is waste in the design and delivery of the courses they teach or perhaps even within their own University's operations (Woods and Zaher, 2004; Temponi, 2005; Comm and Mathaisel, 2005a, b). Evidence of such thinking can be found in the very common desire among faculty to add more material to a course,

rather than eliminate material, or say: “Everything I do adds value.” Of course they are mistaken on both counts (Zimmerman, 1991; Emiliani *et al.*, 2003; Emiliani, 2004b, 2005), but therein lay dozens of opportunities to improve courses in ways that are more relevant to future management practitioners (Grossman, 2001; Emiliani, 2005).

Time-based competition

An important factor for achieving long-term success in the marketplace is the ability to satisfy customer demand faster than competitors at the same or lower price and with equal or higher quality (Stalk, 1988; Stalk and Hout, 1990). Companies that do this well are comprised of managers, workers, and suppliers who want to know the details of every business process. They have to know the details if they expect to compete effectively on the basis of time (Ohno, 1988; Nishiguchi, 1994; Dyer and Hatch, 2004; Liker and Choi, 2004). Thus, time-based competition should be a prominent facet of management education. It should be present throughout the curriculum because entire organizations, not just one function such as operations, compete in the marketplace on the basis of time.

Since “time is money,” managers from the best time-based competitive organizations know they must eliminate waste from processes and focus on performing only value added work (Womack and Jones, 1996; Emiliani *et al.*, 2003). In addition, they must not do things that annoy key stakeholders such as customers, employees, and suppliers, because this reduces cooperation and dampens system response time to identify and correct problems or take advantage of new opportunities.

The best time-based competitors experience stable long-term growth and do not need to resort to layoffs, plant closings, squeezing supplier’s profit margins, etc., to improve their own profitability and increase the stock price (Johnson and Bröms, 2000). Further, it does not make sense to marginalize the interests of key stakeholders such as customers, suppliers, or investors whose dedicated efforts are needed to realize continuing success in the marketplace (Basu, 1999; Mintzberg *et al.*, 2002; Emiliani, 2003a; Liker and Choi, 2004; Tsurumi, 2005). In fact, it erodes long-term competitiveness, in part due to long-standing organizational routines that favor short-term power-based bargaining and blame (Emiliani, 2004c).

The best time-based competitors know they must strive to achieve balance among mostly shared but sometimes competing stakeholder interests. While counterintuitive, organizations that do this well enjoy consistently superior long-term financial and non-financial performance. For example, think of Dell Inc., Progressive Insurance Co., Southwest Airlines, Toyota Motor Corporation, or Zara (Emiliani *et al.*, 2003). Unfortunately, faculty often treat the best time-based competitors as business oddballs whose success is largely attributable to expensive computer systems, charismatic CEOs, or a unique corporate culture. Instead, the proper focus should be on why process knowledge is important and the specific details of how people go about systematically improving processes and achieving desired results.

Performance metrics

Surprisingly, most business schools do not include a deep analysis throughout the curriculum of the financial and non-financial business performance metrics used in each functional area to gauge success, as well as their contribution to errant human behavior and flawed decision-making. As a result, it becomes easy for students to

assume that all metrics in use are accurate and helpful in the day-to-day management of a business. Graduates entering the workplace will naturally think the \$200 million their *Fortune* 1000 company spent on a new software system produces useful measures. It is cutting-edge software sold by global leaders in enterprise software systems, so people reason that it must be a good product. This is a faulty assumption which clearly illustrates a lack of critical thinking (Fiume and Cunningham, 2003; Emiliani *et al.*, 2005; Brown, 2006).

As a result of faulty assumptions, people – including CEOs and directors – do not question if the metrics drive behaviors and decisions that are inconsistent with business processes, stated company goals, business principles, or corporate purpose. This leads to dysfunction on a large scale, where people work to achieve their metrics even if they lead to bad results for the company or its customers. Examples include: purchase price variance, standard costs, earned hours, sales commission structure, number of patents, etc. (Emiliani *et al.*, 2003, 2005).

For example, the purchase price variance metric is easily subject to abuse, and results in negative outcomes with regards to cost management, the timely delivery of goods to customers, and supplier relations (Emiliani *et al.*, 2005). While in manufacturing businesses, the “earned hours” metric, based on standard direct labor cost, is often skilfully manipulated to meet budgets by producing goods that “earn” the most labor hours instead of making the specific goods that customers ordered.

But precise numerical metrics are not the only thing managers must pay attention to. There is also non-quantitative data that must be factored into decision-making. But often it does not because if it cannot be made quantitative, on a spreadsheet, then the data will often be viewed by top management as inconsequential. This highlights the importance of corporate purpose and business principles, because part of their function is to serve as guide for understanding the relevance of non-quantitative data. This can include, for example, assessments by management of one or more stakeholder’s likely response to a business decision, encouraging managers to take a long-term perspective, or engaging in activities or pursuing opportunities that are consistent with corporate purpose or strategic principles even if the payoff is not known (Caux Round Table, 1994; Basu, 1999; Toyota, 2001; Liker, 2004). Thus, business principles and corporate purpose help define management responsibilities, increase managers’ awareness of cause-and-effect, and expand the base of relevant information used for decision-making.

Top managers who scrutinize their metrics to ensure they do not focus employee’s activities on creating or managing waste, and also bring to life corporate purpose and business principles, are better able to balance quantitative and non-quantitative data. This leads to better business decisions because managers will avoid falling prey to the most common decision-making traps (Hammond *et al.*, 1998; Emiliani, 2006): i.e. “status-quo” (preference for solutions that preserve the current state); “anchoring” (giving disproportionate weight to the first information received); “sunk-cost” (decisions that support past decisions); “framing” (making a decision based on how a question or problem is framed); “confirming evidence” (seeking information that supports a favored viewpoint); and “estimating and forecasting” (making estimates or forecasts of uncertain events) –, as well as power-based bargaining, blame, and ignoring or marginalizing the interests of key stakeholders (see Table I).

Total cost and outsourcing

In the context of industrial procurement, the term “total cost of ownership” is used to describe all costs that are incurred, in addition to the initial purchase order price, such as: inspection, support personnel, warehousing, service, logistics, repair, maintenance, litigation, etc. Unfortunately, most senior managers do not understand or seek the “total cost” of various business transactions such as the goods and services their company purchases (Ellram and Siferd, 1998; Ferrin and Plank, 2002) – just purchase price (Emiliani *et al.*, 2005; Emiliani, 2006). This leads to an incomplete or inaccurate understanding of current and future costs. Managers commonly use purchasing tools such as economic order quantities and online reverse auctions, as well as price-based metrics such as purchase price variance (PPV). While savings may be achieved on a unit cost basis, they often lead to higher costs on a total cost basis (Emiliani *et al.*, 2005).

A common example is when purchasing people shop for the lowest price, driven by the PPV metric whose use is fully supported generations of top managers – the CEO, CFO, and VP of purchasing. Invariably, the goods will be late, caused by delays in the placement of purchase orders for goods that do not meet the metric, and the company will miss important sales opportunities. Or the quality is bad and the product has to be recalled, resulting in customer dissatisfaction, warranty expense, and possibly litigation.

What about when companies, faced with deteriorating financial performance, pressure suppliers to reduce prices, often unilaterally? Suppliers will typically acquiesce on price, but most will look for opportunities to get even in the future. They will charge their customer higher prices for expedited orders or a high price for inexpensive new tooling – both of which accrue to different budget categories that do not negatively impact the unit prices paid. Thus, the total cost associated with destructive power-based bargaining goes unnoticed.

In most manufacturing businesses, general managers are driven by the “earned hours” metric, a measure of labor efficiency whose use is again fully supported by senior managers. The general manager will seek to avoid the pain of budget variances by directing workers to make products that require a lot of labor but are not what customers ordered. The result is increased inventories, slower response to customer demand, and late deliveries. But the general manager met his or her operating budget targets, which is what matters most, and remains in good standing with the boss for another quarter.

It is popular lately to outsource call center activity to manage customer support. On the surface, call centers located in low wage countries appear to be a significant cost savings – until negative press reports appear due to customer complaints or lost sales. The rationale for outsourcing call centers to low wage countries would be diminished if the narrow focus was expanded to ask customers about ways in which products and services could be improved, and if this information was rapidly transmitted to people nearby who are responsible for new product and service development. Organizations that are able to quickly act on this new information will experience sales growth and margin expansion.

The costs associated with each of these four examples are comprised of both quantitative and non-quantitative data. The general inability of managers to process non-quantitative data and also recognize important cause-effect relationships leads to poor business decisions. Again, corporate purpose and business principles, if understood and used correctly, will aid in the analysis of quantitative and non-quantitative data.

Respect for people

Educational programs that culminate in the awarding of degrees in business, management, and related disciplines must clearly point the way on how to improve business. But they must do more than just that. They must also lead to steady improvement in manager's comprehension and application of "respect for people" over time (Kunio, 2000; Toyota, 2001; Emiliani *et al.*, 2003), where people are employees, suppliers, customers, investors, and the communities in which businesses operate.

While the words "respect for people" sound simple and all managers will say they are totally committed to it, "respect for people" is, in fact, very challenging to fully comprehend and put into daily practice (Ohno, 1988; Okuda, 1999; Kunio, 2000; Toyota, 2001; Emiliani, 2003b; Emiliani and Stec, 2004; Tsurumi, 2005). This is particularly true with regards to long-established business practices such as corporate policies, financial analyses, business performance metrics, and software systems, because there are facets hidden within these that are at odds with "respect for people Emiliani *et al.*, 2003".

Further, no key stakeholder benefits if company personnel:

- Cannot articulate or act on the corporations' purpose.
- Operate in the absence of business principles.
- Have difficulty recognizing problems.
- Do not know how to determine root cause of problems and identify and implement countermeasures.
- Are mired in wasteful organizational politics and blame.
- Do not understand business processes.
- Cannot tell the difference between activities that add value and those that are waste.
- Do not understand how to compete on the basis of time.
- Are bound by metrics that are inconsistent with company goals or customer desires, and create waste.
- Do not understand the total cost of outsourcing or other business transactions.

In fact, these are concrete examples of disrespect for people because they will, either alone or in combination, lead to outcomes that negatively impact one or more stakeholders at some point in time. Often, these items will recur periodically and cause repetitive distress among stakeholders through, for example, higher costs, quality problems, longer lead-times, personnel turnover, customer defections, loss of investor confidence, etc. Improving management education is one important avenue that can help correct obvious deficiencies in how most managers interpret and apply "respect for people". It is a wonderful opportunity for faculty and students to dig deeper and uncover new connections between assumptions, knowledge, activities, behaviors, and outcomes.

Improving the MBA degree

Today, many senior managers have concluded that the work of a \$100,000 finance professional with an MBA is equivalent to a finance professional with an MBA earning \$15,000 in a low wage country. So some are outsourcing knowledge work related to finance and other activities that appear to offer similar savings. To arrive at this conclusion, senior managers must think the knowledge and capabilities that MBA

graduates possess is largely the same worldwide. They also must think that they have done an outstanding job utilizing their expensive human resources, and no further utilization can be achieved. And they surely think they are saving money.

This outcome vividly points to several shortcomings of current management education, including: increasing homogeneity in course content, a limited view of human potential and creativity, and poor integration of diverse knowledge areas across the curriculum. The narrow discipline-based approach to courses commonly found in graduate business school education is known to be deficient in many practical respects, post-graduation. For example, it usually results in local optimization – i.e. functional “smokestacks” – in actual business practice.

When courses are presented largely as a list of disconnected topics, it is generally left up to students to figure out how to integrate what they learned once they enter the workplace (AACSB, 2002, 2005) – including how to continuously improve and utilize human resources in ways that demonstrate respect for people. Take for example finance courses. They typically do not discuss organizational behavior, and organizational behavior courses typically do not discuss finance. However, in actual business practice the two are indeed closely coupled; e.g. failure to meet financial targets often precipitates dysfunctional organizational behaviors. Graduates gain an understanding of the interplay between finance and organizational behavior on-the-job, and much less so in the classroom.

As a result of these and other factors, many degree programs fail to produce graduates with identifiable value-adding capabilities such as knowing precisely how to create innovative products or services that customers desire, or how to systematically improve productivity using non-zero sum methods. In a global economy, this puts students at risk of future job elimination, which does not reflect favourably on the University, the school, its faculty, or the management education curriculum. On the other hand, students that understand processes for creating innovative products or services or improving productivity through fundamental process improvement, rather than well-worn budget cutting – which clearly illustrates managers’ ignorance of the root cause of problems – will be more highly valued than those that do not.

While the need to change may be recognized by some faculty and administrators (Frank, 2005), the traditional process for improving curricula is slow and cumbersome, and the desired result is not well understood. In the future, graduates must know how to improve the entire business system, rather than individual functional parts, in order to better satisfy end-use customers. But how can they do that when most managers are trained at work, and perhaps also in business school, to be functional experts?

I propose an improved MBA curriculum that moves from the traditional discipline-based list of courses to an integrated network of stakeholder-centered courses, as shown in Table II. This proposed curriculum would address each of the following items:

- 11 deficiencies cited previously;
- simplify the curriculum;
- add needed focus;
- improve relevancy;
- make it more interesting;
- improve thematic consistency;

Course	Primary topics
The company	History of the corporation; corporate purpose; CRT <i>Principles for Business</i> , political and legal constructs; structure, function, and organization; board of directors and officer responsibilities to stakeholders; fundamentals of value creation in design and manufacturing and service operations; performance measures
Business leadership	Shareholder versus stakeholder-driven leadership; balancing stakeholder interests; leadership beliefs/behaviors/competencies; results versus process focus; metrics, human motivation, and multi-channel communication
Employees	Effective and responsible interaction between employees and other stakeholders; organizational behavior; employment law; compensation and benefits; business practices/metrics that block or enable information flow; feedback mechanisms
Suppliers I	Organization and process; buyer-seller relationships; managing supply networks; performance measurement; strategic cost management; negotiations, B2B e-business; unit cost versus total cost; green procurement
Suppliers II	Supplier evaluation and selection; developing supply networks; continuous improvement; target costing; collaborative problem solving
Communities	Impact of business on the community and its interests; corporate philanthropy and associated decision making processes; taxation; standard of living, infrastructure, prestige, growth, education; economic policy
Customers I	Internal customer-supplier relationships; end-use customer relationships; customer acquisition and retention; marketing and advertising; B2C e-business; distribution and logistics; linkage to employee care
Customers II	Market feedback/voice of the customer; value stream mapping; quality function deployment; time-based competition; pull systems; leveling sales
Investors I	Role of investors in privately-owned businesses; conventional financial and managerial accounting; value stream accounting; beyond budgeting; profit planning
Investors II	Role of investors in publicly owned businesses; intangible assets (brands, intellectual capital), social capital, etc.; GAAP and fallacy of pro-forma reporting; debt policy; valuation of firms; futures and options; fixed income securities
Competition – domestic	Methods by which nations, states, and companies address the development of industrial capabilities and domestic competition; resource allocation; decision-making; local optimization versus business system improvement; business cycles
Competition – global	How nations, states, and companies address the development of industrial capabilities and international competition; international trade; competitive strategies; exchange rates; monetary policy; stock listing on foreign exchanges; mergers and acquisitions
Complementors	Businesses that provide complimentary products and services; new product/service development; pricing strategies; marketing strategies and tactics
Environment	Environmental management; design for environment; EH&S legal issues; industrial safety and ergonomics; resource management and conservation; compulsory versus voluntary compliance; green balance sheet; remediation; acquisition and divestiture
Intrapreneurship	Gaining management's interest in new ideas; organizing internal resources; use and leverage of distributed resources; project portfolio management; R&D management
Entrepreneurship	Starting a new business; organizing internal and external resources; raising capital; resource conservation, make/buy; selling products and services; technological innovation; creating business plans
Elective Courses	Forensic accounting; quantitative marketing research; intellectual property; new product and service design; corporate public relations and communications; business process improvement; international negotiations

Note: Three credit hour courses. Total = 48 credit hours, plus up to 12 credit hours of electives

Table II.
Improved MBA
curriculum

- improve connectivity to the “real-world”; and
- offer greater lifetime utility to students.

I present this as a starting point for fundamental improvement, and not as a finished product. It is intended to be a specific example that current and future management educators can use to focus their dialogue and carry forward actions to improve management education. Some educators may find it to be a useful starting point for differentiating their program, gaining competitive advantage, increase enrolments, perhaps gain some pricing power, improve student and employer satisfaction, etc.

Creating such a program could simply be dictated by a Dean, but that would likely breed strong resentment among faculty and perhaps other key stakeholders. A better approach would be to create an editor or editorial board to oversee the curriculum to ensure thematic consistency and continuous improvement in all courses and programs. Consider, by analogy, a multi-author book devoted to a particular topic. The book would be of little value to readers without the direction of an editor to improve thematic consistency and avoid duplication of content. An MBA program is a multi-author product that should be supervised by a qualified editor or editorial board[2].

If business schools do not change, they will face an uncomfortable future. For example, what happens when senior managers decide that they no longer want to invest in their employee’s career development through company-paid degree programs? What happens when students decide that a graduate business degree offers no substantive advantage in the job market, and instead decide to pursue a second skill such as carpentry or interior design (Skapinker, 2004)? The very real threat that business schools face is self-inflicted declines in enrolment (Merritt, 2005; Colvin, 2005), commoditization of their service (Gerdes, 2005), reduced relevancy of graduate business degrees for corporations (Merritt and Lavelle, 2005), trivialization of management research and scholarship (Pfeffer and Fong, 2002), and the rise of new competitors (Jaschik, 2005; Colvin, 2005; Arenson, 2006) – not a good outcome given the dedicated efforts of so many faculty, administrators, corporate sponsors, and alumni over the years.

The typical approach to dealing with these problems is to try harder to sell what is currently offered. This becomes an expensive marketing and construction capital campaign that ultimately will be, in most cases, a losing proposition over the long-term. A better way to would be to fundamentally improve the value proposition of higher education. This would include dramatic improvement of the curriculum, as well as the many other factors that shape value as perceived by students and prospective employers. Subsequently, efforts would be focused on continuously improving the curriculum thereafter using a structured process such as *kaizen* (Emiliani, 2004b, 2005). Mapping the current and future states of higher education value streams would reveal abundant opportunities to eliminate waste and create more value for students, as well as the people who pay tuition, corporations that hire graduates, and ultimately corporations’ end-use customers.

Summary

I have provided an outsider’s view of how management education can be significantly improved. Nothing that I have said in this paper is impossible to do, nor is it inconsistent with AACSB International’s accreditation standards (AACSB, 2005) or the

current and future needs of business (Doria *et al.*, 2003; Colvin, 2005). However, achieving improvements that students and hiring managers will recognize as favorable requires faculty and administrators to question many things about their own knowledge areas and educational delivery routines.

Improving business school education should be a fun process, not an uncomfortable one driven by fear of failure or blame. The question is whether or not Deans and faculty possess a sense of urgency and are willing to confront existing paradigms and change well-established courses and programs.

In my view, business schools do not have time on their side. Global labor markets and CEOs strong desire to reduce labor costs, often regardless of the total cost, will likely reduce wages and cause the job market for new graduates to contract (Tyson, 2005; Uchitelle, 2005; Colvin, 2005). The problem will be exacerbated as the knowledge offered by business schools become even more uniform[3] (AACSB, 2005; London and Bradshaw, 2005), in contrast to the distinctive alternate approach I have presented in this paper.

There is much more that management educators can do to set students up to succeed in business and in life. This reminds me of a profound comment made by Eiji Toyoda, former CEO of Toyota Motor Corporation (Minuora, 2002):

... employees are offering a very important part of their life to us. If we don't use their time effectively, we are wasting their lives.

Shouldn't all students, many of whom will become managers in the future, be instilled with this way of thinking?

Notes

1. Managers who rigidly conform to maximizing shareholder value in the short-term typically encounter the many problems including: under-funded pension plans, lack of new products or production capability, shortages of materials (vaccines or oil, for example), channel stuffing, expense and revenue recognition, reduced information flow, data integrity issues, sociopath behavior among managers and workers, loss of focus on end-use customer needs, skilled labor shortages, etc. (see Table I).
2. Qualifications would include several years of cross-functional industrial management experience.
3. AACSB's accreditation standards do not require business schools to achieve uniform curricula or homogeneous faculty in terms of qualifications. However, that increasingly seems to be the outcome, and is apparently driven by risk-aversion among Deans, curriculum committees, and faculty search committees.

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Appendix

The equation used to estimate shareholder value supports this point:

$$\text{Shareholder value} = \text{Corporate value} - \text{Debt}$$

where:

$$\begin{aligned} \text{Corporate Value} &= \text{Present value of cash flow from operations during} \\ \text{the forecast period} &+ \text{Residual value} + \text{Marketable securities} \end{aligned}$$

and

$$\text{Cash flow} = \text{Cash inflow} - \text{Cash outflow}$$

The key stakeholders in a business include: customers, employees, suppliers, investors, and communities. Examining the shareholder value equation reveals the following:

- Shareholder value represents the investor.
- Corporate value is determined largely by cash flow, the principal source of which is sales to customers.
- Debt, as expressed by current liabilities in the balance sheet, contains money owed to suppliers (accounts payable), employees (accrued expenses), and communities (income taxes payable).

Not surprisingly, all five key stakeholders are represented in the shareholder value equation, which proves their existence and thus recognizes business as a human-economic activity.

Source: Emiliani (2004a)

Glossary

- AACSB Formerly an abbreviation for The Association to Advance Collegiate Schools of Business, and now known as AACSB International.
- CEO Chief Executive Officer
- CFO Chief Financial Officer
- MBA Master of Business Administration
- VP Vice President