POINT DE VUE

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Business education and executive opportunism

The case of MBAs

If I were to say that I would rather have my health managed by a randomly chosen neighbor than a graduate of a reputable medical school, you might question my sanity. And if I were to ask whether you would have your company run by an MBA instead of someone without any business education, then using the same logic, you would opt for the former. Research Xiaowei Xu and I have conducted recently on American chief executives indicates that you might be wrong.

Our initial objective was not to study MBAs. Instead, we wanted to evaluate the effects of hubris on top executives of major US public companies who had been featured over the past 40 years in laudatory cover stories in the top three US national business magazines: *Fortune, Forbes* and *Business Week.*

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Although we found slight evidence of hubris, an incidental finding of ours was far more interesting: the education of the CEOs mattered a great deal to the way they conducted their business and to the performance of their firms many years after they had graduated from school. It was interesting, for example, that graduates of top Ivy League (Harvard, Princeton, Yale, Columbia, Penn, etc) undergraduate programs were able to sustain superior firm performance for longer than their counterparts who had not benefited from such educations (Miller *et al.*, 205, p. 930-944). But that was not our most surprising finding.

We reasoned that if general education mattered to a CEO's performance, surely business education would be even more helpful, as it has greater relevance to managing a business. We were stunned to discover that exactly the opposite was true: graduates of MBA programs were far less able to sustain superior performance than other CEOs who had also made those magazine covers. More importantly, they tended to grow their firms via acquisitions rather than organically, and sacrificed earnings and cash flow in the process. However, strangely, their personal financial compensation increased at a faster rate than that of their counterparts, who had outperformed them! (Miller, Xu, 2016).

Given our personal employment at business schools, we were somewhat reluctant to take these findings as being conclusive, despite it being difficult to dismiss our research on a sample of almost 500 CEOs over 40 years of history at the most major US firms. (We should say, this was not an easy paper to have accepted for publication in American academic journals!)

Our skepticism caused us to embark on a far more ambitious and encompassing research project, this time of all of the 5000 or so CEOs present over 10 years in the Boardex database. We had hoped to show that our earlier findings regarding cover CEOs were an anomaly caused by the very public celebration of their achievements.

Unfortunately, the results of this later study were still more dire. We found that the 35% of our sample who possessed MBA degrees managed in a way that was quite different from their non-MBA counterparts. They tended to engage in techniques of earnings management to artificially boost earnings, and they expended inferior amounts on research and development; both of these tactics resulted in an immediate and artificial increase in profits, and, of course, a subsequent decline so that the market valuations of the MBA's firms fell far more than those of the companies led by non-MBAs. And strangely, once again, the MBAs managed to boost their compensation significantly more than their non-MBA colleagues – despite their inferior performance (Miller, Xu, on line).

In reflecting on these disheartening results we began to think more about the content of many MBA programs – the course emphasis is on the financial bottom line, on managing by the numbers, on theories that celebrate financial achievement, on finance and accounting. The theories featured are transaction cost economics, agency theory, and other approaches emphasizing selfish motives, financial incentives, and a lack of trust. In case studies, the point of view taken is that of the CEO or shareholder; the protagonists featured are managers and entrepreneurs. Employees, the community, scientific invention, social contribution, even the customers, take a back seat. Certainly there are courses with topics such as social responsibility; but these represent a token minority of content in a soup of pecuniary material.

I do not wish to maintain that business education *causes* these results. It may be that those with a short-termist, opportunistic bent choose to enter business schools rather than programs in the arts or sciences. Nonetheless, the connection between MBA programs and our results is a sobering one.

Happily for my French friends, this is an American story and given my geographic vantage point, I am not sure how far the disease has spread. But if your business schools are absorbing our "lessons" too avidly, let the buyer beware.

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