Selected Paper No. 59

Business Education in the United States

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Business Education in the United States

We have no record of a business school in the New World before the landing of the Pilgrim Fathers. The earliest we know of was founded in Plymouth in 1635, probably a transplant from a thriving British industry. Mr. Morton, its proprietor, advertised reading, writing, and the casting of accounts. For two centuries and a half after that, business schools remained purely vocational, concentrating on "penmanship, bookkeeping, rapid methods of making computations, and grammatical construction and composition of mercantile correspondence." In 1880, the United States Department of the Interior enumerated 162 commercial and business colleges in the United States, enrolling 27,000 students. Business training was also provided in normal schools, private secondary schools, and in public high schools.

In 1881, when Joseph Wharton endowed the first collegiate school of business at the University of Pennsylvania, business education began undergoing a civilizing transformation. By 1925, of the thirty-eight members of the American Association of Collegiate Schools of Business, half required their students to study a foreign language, fifteen required courses in English literature, and two required philosophy. Admission to the University of Chicago College of Commerce and Administration in 1925 required history, Latin, a modern foreign language, English, mathematics, and physics. Wharton, that year, told its applicants that, "the association of this school with the University of Pennsylvania marks the purpose to connect with the special training in economic and mercantile science that general culture which is as necessary to the businessman as to every other useful member of society." General

culture included the greats of classical antiquity such as Horace, Livy, Virgil, Homer, Aeschylus, and Thucydides. Students were free to choose between Aristophanes and Euripides. These requirements reflected an educational philosophy expressed in 1925 by the dean of Columbia University's School of Education when he wrote, "What does it mean that in the ten leading American universities enrolling 87,000 students, 50,000 are registered in professional schools directly preparing for professional careers? It means, in a few years, 50,000 men and women released for trained leadership, free from the bias of creed, free from the blight of pseudo-science, free from the curse of the mere technician, practitioners imbued to a certain extent, we trust, with university ideals of culture, of service, and of public devotion. From them will arise lawyers and businessmen who are also economists, teachers who are also educators, engineers who are nation builders, physicians who are humanitarians, and clergymen who are social leaders." Whether or not it meant all that, it did mean that in the first quarter of the twentieth century business education was absorbed into the mainstream of American higher education.

Most collegiate business courses in 1928 dealt with current business practices, and were taught by practical, experienced people. Chicago's dean, Leon Carroll Marshall, in 1928 described a new sort of business professor who would "devote [himself] to the study and presentation of the fundamental processes, conditions, and forces of 'business with quite incidental attention to minor techniques." Marshall advised that, "business education calls for mature contacts with several existing scientific disciplines . . . the economics of today should place empha-

sis upon quantitative analysis and upon . . such . . . borderlands as between economics and law, or between economics and psychology." The first doctoral degree in business was awarded in 1928 at the University of Chicago, a signal that business had come to be regarded at Chicago as a proper subject of scholarship. By 1940, business schools had graduated more than 350 doctoral students, trained as scholars and teachers for careers in business education. The principle was gaining acceptance that scholarship and scientific research are important professional activities of business school professors. The research universities, having adopted business education in 1881, were integrating it into the family.

The Harvard Business School has been left out of this account because in 19 I9 it ventured on a path of its own that led to immense and well-deserved success, but that isolated it from the developments I am describing, with consequences Harvard now increasingly confronts. A 1954 book on the Harvard case method, edited by Malcolm McNair of the Harvard faculty, has nothing but praise for the exclusive use of cases in business instruction, but one alumnus comments, "there is doubt whether the case method is the best way to teach methodology such as accounting, statistics, or the operation of machine tools." The reference to machine tools puts accounting and statistics in their place as subjects unworthy of a future business leader's attention. In exchange for what Harvard offered its students, that deficiency was a small price to pay. But as scientific research increased our knowledge of business, the deficiency grew until Harvard recognized that corrective action was called for. For more than a decade, Harvard has been experimenting with ways to in-

corporate the results of scientific research into its curriculum and to create strong intellectual ties between the business school and other academic departments of Harvard University.

Professor James Howell, of Stanford, took his economics Ph.D. at Yale in 1955. Two years later, he was prowling New Haven trying to convince Yale's new crop of economics Ph.D.'s that a career in business education could be respectable and that Stanford's business school could provide a congenial intellectual environment for economists. The idea seemed ridiculous and disreputable. If Howell bagged any game that year, his victims kept the secret. Landing a job in a business school, even an excellent school like Stanford, was nothing to brag about. The following year, 1958, two books were published, one authored by Howell jointly with Robert A. Gordon and the other by Frank Pierson. These books, commissioned by the Ford Foundation and the Carnegie Corporation, did for business education what the Flexner report did for medical education almost fifty years earlier. They reviewed the history and surveyed the state of business education in the United States and recommended reform-the reform envisioned by Dean Marshall in 1928, and already well under way at Carnegie Tech, the University of Chicago, M.I.T., and Stanford. The major new development in business education was to be greatly increased emphasis on two graduate business degrees: the M.B.A., a degree for professional managers, and the Ph.D., a research degree for business school professors. Business courses were to be taught by scholars, Ph.D.'s trained to use scientific method to study various phenomena of business. Business schools were to draw faculty from many of the older

academic disciplines such as economics, mathematics, psychology, and statistics. The business schools themselves were to train Ph.D.'s for faculty positions by teaching them the basic business disciplines as well as scientific method and by directing their research toward important business problems. The demand for business Ph.D.'s proved enormous. Annual production rose from an immediate post-World War II level of about 30 to more than 1,000 in 1975 and has now leveled off at about 900.

The cream of this Ph.D. crop, by which I mean the most promising young scholars, begin their careers at any of two dozen business schools considered the best. There they find themselves in the company of equally promising young scholars trained in leading departments of economics, mathematics, psychology, and statistics. Their advancement depends heavily on their success in authoring scientific papers that meet the standards of refereed scholarly journals, most of which were founded after 1950. The substance of the courses they teach comes increasingly from their own research and from the pages of those journals. It is increasingly theoretical rather than descriptive. This approach to business education has proved spectacularly successful because thoroughly tested theories have immense practical value. The results of scholarship find their way into practical application through the training of M.B.A.'s in schools that produce new knowledge and the hiring of those M.B.A.'s by businesses. It is the technically trained professional manager who translates theories into practice.

Few industries have enjoyed a more impressive record of growth than graduate management education has experienced since 1960. The output of business master's

degrees grew for twenty years after 1960 at an average annual rate of 12 percent-slightly more in the first decade and slightly less in the second. Total output in 1981 was 55,000, more than the output of law and medical schools combined. Signs of success include the corporate recruiters who swarm to the top schools year after year, the salaries they offer, and the vast array of attractive opportunities open to new M.B.A.'s from top schools. Despite the abundance of market evidence, there are skeptics who doubt the value of abstract and theoretical training for future business leaders. Partly, the skepticism arises from exaggerated claims of business school deans who brag that the schools they head teach leadership. Many business graduates will rise to responsible and important management jobs, as will many men and women trained in engineering, law, and the humanities, and some with little schooling of any sort. The ability to lead a business depends largely on qualities of intellect and character that a good school can encourage and develop, but which must be present when the student is admitted to a school if they are to be there upon graduation. To produce potential leaders, a school must recruit and admit students who possess, not just exceptional intellectual capacity, but other equally important signs of leadership potential: integrity, courage, judgment, and ambition. I do not mean to suggest that our chief value lies in our selectivity. Unless we add something valuable to the mix, promising young men and women will not seek admission to schools like ours and pay the prices we must charge. Our contribution to the mix is partly the new knowledge we produce and partly something else.

All the best professional schools have in common that they teach their students how

to learn from experience. In teaching our students how to reason about markets and how to evaluate evidence, we equip them to improve their own professional competence. The problems they encounter in the performance of their jobs combine with the theoretical knowledge we provide, enrich it, and mold it into a powerful set of tools. Because we expect our students to be called on to put what we teach them to practical use, we regard it as our responsibility to teach them the limits as well as the uses of theory and to encourage in them an attitude of healthy skepticism, even toward accepted wisdom – even toward our own wisdom.

A complete explanation of our success, one that will illuminate the future of business education, requires a discussion of the demand side of the M.B.A. marketplace. We choose to do what we do best, but why does American business-and increasingly, world business-buy our product at such a handsome price? The answer lies partly in the changing scale and scope of business and in our contributions to change. The recruiters who regularly come to hire our graduates come mostly from the large Standard and Poor 500 companies and the accountants, bankers, and consultants that serve them. Since 1950, these firms have tripled the number of people they employ, quintupled the real value of their assets and profits, and sextupled their sales. This growth has been achieved by more than just an increase in size. Local and regional firms have become national and international. The customers served and the facilities and people managed reach around the world. The value of the assets they employ is immense; under the intense competition that is characteristic of the markets they serve, even small improvements in the management of those as-

sets can spell the difference between profit and loss for the shareholders. Compared with the scientific and technical discoveries that gave us modern computers and satellite communication, cash management and asset valuation seem sterile and unproductive, but the appearance is misleading. Material benefits flow from doing these things well and their implications for the allocation of resources are real and significant.

Large firms typically are far more diversified and decentralized than they were thirty years ago and must employ highly sophisticated systems for gathering and disseminating information of every sort. It is no accident that the business disciplines that have prospered most are those that improve the gathering, analysis, and flow of information, especially financial information. The M.B.A.'s in greatest demand are those with the best training in accounting and finance. Almost half the teaching in top schools is in those two subjects, and handsome salary premiums are paid to professors who teach them well.

Top management of the larger firms is forced to rely increasingly on incentives in place of direct control. The internal organization of such firms, if they are to function efficiently, must more and more resemble the organization of a market economy. For this reason, formal training in economics--especially in industrial organization-is an increasingly valuable part of the education managers receive in graduate business schools.

Of all business disciplines, finance best illustrates the historical process I have described. The intellectual respectability of finance is such that it has merged with the mainstream of economics; a significant part of its literature now appears in leading eco-

nomics journals. Its practical value is evident from its widespread application in the marketplace. Productive scholarship was made possible by vast quantities of data for testing theories, large-scale computers, and modern statistical methods. Just as the organized financial markets generated the data that provided the raw material for financial research, electronic point-of-sale equipment and computerized personnel records are now generating the raw material for scientific study in the applied business fields of marketing and industrial relations.

Firms hire our students, just as they hire engineers, scientists, and lawyers, for access to new technical knowledge. Business has always recruited leaders from the ranks of its best educated, most ambitious employees. That is why such a large proportion of the people who rise to the top are engineers, lawyers, and, increasingly, M.B.A.'s. As they rise, they make less and less use of detailed, technical knowledge and more and more use of general and fundamental knowledge. Our students, as they rise, will remember enough of what we teach them to be sophisticated consumers of the information our most recent graduates produce for them; eventually they will be left with a mixture of what experience has taught them, a valuable residue of what we taught them, and the outstanding personal qualities that gained them admission to our school in the first place.

However deplorable it may seem to those who want us to teach courses in entrepreneurship, leadership, and statesmanship, we are likely to become increasingly abstract and theoretical in our approach to business education as our success in finance is replicated in other disciplines. Our own institutional imperatives and the demands of the marketplace both tend in the same di-

rection. All the best business schools are located in universities in which professors who excel in scholarship and scientific research command the greatest respect, gain the most rapid promotion, and earn the highest salaries. As for the M.B.A. marketplace, the greatest prize a recruiter hopes to find is a graduate of a fine engineering school with an M.B.A. in modern finance, ambitious enough to become chairman of the board, and patient enough to spend a few years, first, putting his technical knowledge to profitable use for the company. Chicago and other schools like ours are encouraged by the market's enthusiastic acceptance to persist in our basic strategy: searching constantly for valuable new knowledge and teaching what we discover to the most promising young men and women whose ambition is to manage and lead the world's businesses in the demanding and promising decades that lie ahead.