CHAPTER 2

LITERATURE REVIEW

The MBAs offered in Thai are very much a Western import, and Western management education models have hitherto predominated (Whitely, 1995, p. 65). However, the need to adapt teaching and learning approaches in management education to national and regional contexts has long been recognized (Cheung, 1998, p. 333; Thanopoulos, 1986, p. 173). This necessity applies particularly in Thai, where real differences in learning styles have been documented that go beyond the Confucianist-derived, learn-by-rote stereotypes (Biggs, 1996, p. 45; Cogan, 1984, p. 91; Hofstede, 1980, p. 86; Lee, 1996, p. 36; Perotti & Bridges, 1993, p. 235; Pratt, 1992, p. 8; Redding, 1980, p. 26; Watkins, 1998, p. 83; & Watkins, Reghi, & Astilla, 1991, p. 39).

Given the need to make non-superficial adaptations in MBA programs to ensure their appropriateness to Thai students, the present trend of rethinking and restructuring MBAs should allow truly Thai MBAs to be formulated, too (Carpenter, 1998, p. 47; Cudd, King, & O'Hara, 1995 p. 74; & Hancock, 1998, p. 93). As educators set about designing programs specifically for Thai students, they will need to ensure that new MBA contents and structures accurately reflect the attributes and demands of local and niche markets. In Thailand, it is very often the individual executive who decides to study, and most likely pay, for an MBA program, understanding the reasons as to why they decide to undertake a lengthy and expensive program of study is a vital starting point for planning and implementing the new Thai MBA. As the demand for MBA degrees in Thai continues to grow, the comparative trickle of programs offered will undoubtedly turn into a flood as Eastern and Western universities begin to crowd the market. Only those programs that develop reputations for delivering what Thai students really want will be able to achieve the continuing success of particular graduate schools of management throughout Europe and North America. Moreover, only if Thai MBA programs satisfy Thai students' demands will the degree itself be able to maintain its appeal. The starting point for satisfying Thai demand for MBA programs must understand why Thai students want to pursue MBA. Not only the motivation to gain MBA and undertaking graduate management study likely to be different in the East compared with those prevailing in the West, but they are also likely to differ within Thai.

A Brief History of Management Education

In 1819, liberal economist Jean-Baptise Say changed the course of modern management with the foundation of the first educational institution devoted solely to business and finance, École Supérieure de Commerce de Paris. (From the ESCP-EAP website, accessed May 07, 2010)

Indicating an emerging interest in the scientific study of business, the establishment of *ESCP* set in motion the movement that would put business on par with other educated professions like law and medicine. In 1881, the Wharton School of the University of Pennsylvania followed *ESCP* and brought business education to the United States; and in 1900, Dartmouth established the Tuck School of Business to confer the U.S. business world's first advanced degree, a masters in "commercial sciences" (Broehl, 1999, pp. 43-44).

This was all very new. Until the 19th century, practitioners of business largely thought management merely a *function* of business, and business a vocational interest-something learned through apprenticeships, real-world experience, and hard work. By the late 1800s, however, the formalized study of business was gaining some prominence as a potential source of competitive advantage for workers.

In 1899, Frederick Winslow Taylor brought focus to this emerging discipline with the publication of his *The Principles of Scientific Management*. Taylor, an efficiency guru and failed employee of the Bethlehem Steel Company, claimed that management was a distinct practice-a science-and as such, worthy of study as a discipline unto itself. In the introduction to *The Principles of Scientific Management*, Taylor wrote:

In the past the prevailing idea has been well expressed in the saying that "Captains of industry are born, not made"; and the theory has been that if one could get the right man, methods could be safely left to him. In the future it will be appreciated that our leaders must be trained right as well as born right, and that no great man can (with the old system of personal management) hope to compete with a number of ordinary men who have been properly organized so as efficiently to cooperate (Taylor, 1997, p. 114). In the past, the man has been first; in the future the system must be first. This in no sense, however, implies that great men are not needed. On the contrary, the first object of any good system must be that of developing first-class men; and under systematic management the best man rises to the top more certainly and more rapidly than ever before (Stewart, 2006, pp. 1-8).

Soon thereafter, influential universities across the United States (Stanford, MIT, Columbia, and others) established business schools to train these "great men"; and consulting firms like Booz Allen Hamilton (founded in 1914) and McKinsey & Company (founded in 1926) rose up to employ them. Management education quickly gained increasing respectability, particularly in the later half of the 20th century; and by December of 2006, the Association to Advance Collegiate Schools of Business International listed 543 accredited business schools, 92 of which were outside the United States of America, spanning over six continents and many countries. In the thirty years between 1970 and 2003, business degrees went from 10.1 percent of all graduate degrees conferred to 22.9 percent; and even if the writings of men like Say and Taylor have faded from prominence, the discipline they set in motion-the study of management-is here to stay (National Center for Education Statistics: Digest of Education Statistics 2005, Tables 250 and 251).

The Benefits of an MBA

Business is now one of the worlds' most highly pursued areas of graduate study, and its archetypal degree is the Masters in Business Administration, or MBA. Rather than seeking to cover a specific function, like accounting or systems design, the MBA teaches a general management skill set-creating men and women who, as Taylor envisioned, are prepared to lead and manage organizations. Between 1955-56 and 1997-98, the number of MBAs awarded in the United States rose from 3,200 to 102,171 (Zimmerman, 2001).

In 2000, George W. Bush became the first MBA president of the United States, and in 2002, 165 of the top 440 Chief Executives on the Forbes 500 list possessed

MBAs include, more recently, mega-CEOs like GE's Jeffrey Immelt and disgraced Enron chief, Jeffrey Skilling. But what do students and their eventual employers get from MBAs? (Herper, 2002).

From a student's perspective, it is claimed, the MBA is a door to critical skill development, leadership training, social and professional networking, and better post-graduate employment--it exists to create, certify, and coordinate Frederick Taylor's "great men."

First, these programs teach critical skill development. Some, programs pride themselves on excellence in functional areas, such as Wharton at the University of Pennsylvania and GSB at the University of Chicago in finance, or Kellogg at Northwestern University in marketing. Others schools differentiate themselves through their teaching method; for example, Harvard Business School employs the "case method" (learning specific functional lessons through analysis of real-world business situations) to bring educational lessons to life through decision making. Criticism of these methods abounds, but students and businesses seem to buy into, at least partially, the idea that

MBAs acquire new and valuable capabilities at their chosen institutions. In surveys of employers, learned "skills" -interpersonal, technical, quantitative, and management-rank highly among the attributes sought by recruiters; and there is reason to believe that MBA programs do effectively confer some of these skills, though it is difficult to tell whether they "teach" them or merely "certify" them in graduates "Corporate Recruiters Survey," Graduate Management Admission Council, April 2007.

Business schools, it is claimed, particularly full-time programs, also give candidates an opportunity to build "social capital." Business schools serve as centers for like-minded, intelligent business people to construct the social networks that aid them in their business careers.

Additionally, the very conference of a degree from a top university serves as certification of a graduate's aptitude. An MBA from Harvard, Wharton, or MIT is a sign that a student has both the analytical proficiency to achieve success in the business world and the professional polish to navigate its political waterways; students carry MBAs to employers like badges certifying they have the "raw horsepower" to compete in the upper echelons of the business world.

From an employer's perspective, MBA degrees, ideally, demark students with the knowledge and capability to handle the ever-changing environments of modern business.

These businesses need people who can react to and change their organizations. As Tim Conlon, chief learning officer at Xerox, put it, "We need people with the breadth of experience to deal with the increasing velocity of change. An MBA can be part of-but not necessarily core to-leadership success" (Bradshaw & London, 2005, p. 253).

Those who purchase the services of newly minted MBAs have varying motives. Some, like McKinsey & Company, which hired approximately 600 MBAs in 2005, need exactly the skills broad management programs claim to cultivate-leadership, problem-solving excellence, and adaptability (Bradshaw & London, 2005, p. 180).

Others, like some software firms, prefer students with greater levels of technical knowledge or industry-specific expertise. However, the social capital and "certification" functions of business school may be the most important to employers.

Many employers are quick to claim that an MBA is secondary in importance to experience but are seemingly contradicted by market indicators. As Hudson Asia Chief

Overall, the MBA has stumbled recently-but not much. Growth in applications has slowed or declined in the past several years after decades of rapid ascent (oft-cited reasons include economic conditions, higher entry barriers for international students, and rising costs of graduate school). Business School deans across the world are looking to reevaluate content and delivery mechanisms. Journalists and professors are critiquing programs, often in brash terms. But despite these concerns, program offerings continue to expand. New geographic regions continue to go online for MBAs (most notably, China); and the machine that is global business education rolls along, looking for new ways attract top candidates (Corporate Recruiters Survey, 2007).

Changing Formats

As part of the search for differentiation and increased credibility, availability, and impact, many MBA programs have begun to experiment with the format of their offerings-often targeting expansions at previously untapped pools of managers and executives unable or unwilling to take two years away from the job to pursue an advanced degree.

The traditional mode of delivery for an MBA is the *full-time degree*. In this format, students spend in excess of 20 months taking full-time graduate coursework on-site at a college or university. Top programs include Harvard, Northwestern, the University of Chicago, Stanford, Dartmouth, MIT, the University of Pennsylvania, Northwestern, INSEAD, and London Business School; and students often spend more than $100,000 to cover tuition and fees. While full-time degrees make up the majority of MBA awards, the Graduate Management Admissions Council notes that full-time MBA application growth fell in the time between 2001 and 2005, due partly to economic conditions and partly to the rise of alternatives like Executive and part-time MBAs. Full-time programs focus on teamwork and real-world problem solving (often through a content-delivery system known as the "case method"); and programs try to teach both functional capabilities (marketing, accounting, finance, and operations) and leadership. The two year experience is typically broken up by a 3-4 month summer internship; and as an alternative, some major programs (INSEAD, Northwestern) offer so-called accelerated or one-year programs, which can usually be completed in 12 months, often without the benefit of an intervening internship opportunity (Bradshaw & London, 2005, p. 195).

Part-time MBA programs are also rising in prominence. Part-time MBA programs recorded application increases surged from 27 percent in 2004 to 46 percent in 2005; and 55 percent of part-time programs plan to increase their class size in 2007. Part-time MBA degrees, are similar to their full-time counterparts, but tend to serve a real customer-base composed primarily of working professionals who take a light course load of evening and weekend classes to accommodate their full-time employment. It often takes students there. Not included in this section but worth noting is the Acton MBA. This non-traditional program is geared towards entrepreneurship, and employs several new models of learning and professorial incentivisation; at this time, however, the program is unique and has not been adopted by a large percentage of the MBA seeking population or the institutions that train them ("Graduate Management Applications up in 2006" GMAC news, December 2006). Years or more to complete their degree as they balance education and work; and many of the world's most prestigious schools do not offer substantial part-time programs.

The student population consists largely of mid-level managers looking to take the next step in their careers. And while high-quality institutions like Chicago and Northwestern boast part-time programs, they are often regarded less highly than full-time MBA offerings.

Critiques of Traditional MBA Programs

As with all graduate degrees, graduate management education in its many forms has suffered numerous critiques; and the most fundamental criticisms have, predictably, focused on the most common and highly prized graduate management degrees: The 2-year, full-time MBA.

Critiques of the traditional MBA program typically fall into one of two categories: Content or delivery. A common *content* criticism is that, "MBA programs fail to teach ethics." A common *delivery* criticism is that, "MBA programs fail to provide students with opportunities to apply their learning."

Many people, including most MBAs and those who hire them, generally agree that traditional MBA programs teach the right material and deliver it appropriately. The Supporters might favor minor adjustments to MBA programs, e.g., more international content or less work during peak job interview times. These adjustments, however, would not fundamentally change the program. Employers who are Supporters are likely to recruit across top-ranked schools independent of the particular school's individual content mix or teaching style.

Rivals

Critiques of traditional MBA program content delivery mechanisms – even if that content is assumed to be correct-come from several sources, we call Rivals:

1. Part-time or executive MBA programs aimed at more seasoned professionals than typical full-time programs.

2. European-style one-year programs that also tend to attract more mature students.

3. Traditional MBA programs as they attempt to differentiate themselves from one another. Part-time or executive MBA programs typically target more-seasoned professionals than traditional 2-year full-time programs, and these professional usually work full-time during the course of their studies. While the ability to continue working is often positioned as a convenience to the student, some schools highlight this parallel working learning experience as an enhancement to the student's education. The implicit critique of traditional programs is two-fold: First, for some students, the expected value of traditional programs fails to compensate for the opportunity cost of foregone wages; and second, shifts in delivery model (timing, participant experience, etc) can compensate for any loss of intensity or continuity.

European-style MBA programs also target more-seasoned professionals than typical 2-year full-time programs, but they do require full-time participation. In essence, European-style MBA programs are predicated on the assumption that more experience (typically five years more) on the part of their students allows for discarding half of the duration of traditional programs.

Traditional MBA programs also implicitly and explicitly critique one another by offering variations in teaching style. Case-based schools (HBS, Darden) tout that method as superior to learning mere theory, while more lecture-based schools point out that some fields (often accounting) lend themselves to teach-first, apply-later pedagogy. In general, however, differences between traditional programs boil down to differences in how a handful of characteristics are mixed: case versus lecture; classroom vs. in-the-field work; teaching by academics vs. practitioners; individual vs. team-based work; elective vs. fixed curriculum. No school among the top traditional programs is "pure" along any of these dimensions. As was mentioned earlier, the same institutions often offer different styles of MBA programs under the same roof: Wharton and Columbia offer both traditional and executive MBA programs; the University of Chicago offers a traditional 2-year MBA, an evening or weekend part-time program, and an executive MBA; Northwestern University's Kellogg School of Management offers the same plus a one year MBA program for students with "definite career goals" who are presumably less open to exploring other career paths; Stanford University does not offer a one-year MBA, but does offer a one-year Masters of Science in Management (Sloan Master's) for midcareer executives; MIT offers a traditional MBA plus SM degrees in management or management of technology. Among the hard-core case schools, HBS and Darden offer both traditional MBAs and EMBAs. Declares: "Wharton was founded in 1881 as the first collegiate business school, and that spirit of innovation still drives us today. With the Wharton MBA for Executives, you get the full Wharton MBA-the same degree, innovative curriculum, and world-class faculty as in Wharton's globally-acclaimed full-time MBA program-in a specially designed executive format." While Rivals may critique the delivery mechanisms of the traditional MBA or at least provide alternatives, most do so in the spirit of fielding a substitute product to a market segment underserved by the traditional MBA. Many take pains to show the alternatives are "at-least-as-good-as" the traditional MBA.

Reformers

Like Rivals, the Reformers are often themselves involved in business education in delivery, employment, or indirectly as commentators. Reformers generally see MBA degrees as useful (or at least influential) and the content of MBA programs as meaningfully affecting how degree recipients behave post-graduation.

Reformers' critiques of the traditional MBA are one or more of the following:

1. A core subject is missing.
2. The balance between subjects is suboptimal.
3. The content taught in a specific subject is wrong.

A broad group of people assert that the first critique is apt: Students, faculty, employers, commentators, etc. An excellent example of this group in action is the variety of business school responses to the ethics scandals that began in late 2001 with the implosion of Enron. Many Enron executives held MBAs (CEO Jeff Skilling hails from HBS, while CFO Andy Fastow is a Kellogg alum), were being advised by MBA-heavy consultants from McKinsey (an aspirational destiny for many MBAs and advancers of the "war for talent" mentality) and other firms, and were hiring MBAs by the dozen (Gladwell, 2002). A popular "diagnosis" of why such high-powered businessmen behaved so unethically was that businessmen had never been trained in ethics, particularly in MBA programs.

Within a short period, employers began demanding "values-based" MBA graduates, and MBA programs began requiring courses in ethics, hiring more ethicists, and generally raising the profile of ethics-related investments. In the classroom, topics such as stakeholder theory of the firm, sustainability, and corporate social responsibility have been positioned as counterweights to the shareholder value model.

Whether these shifts in business education and the business environment produce more "ethical behavior" is an open question. The next "big topic" rolled into the business school curriculum, though more as a key theme affecting all subjects, not as a distinct subject on its own.

The second critique is often proffered by faculty who deliver "soft" courses such as communication, organizational behavior, or ethics, particularly when fighting with core courses (finance, marketing, operations, strategy, quantitative analysis) for "airtime" in the curriculum. Also included in the "suboptimal mix" group is Stanford business professor and commentator Jeffrey Pfeffer. Pfeffer maintains that the dominance of an individualistic economic perspective on business-particularly in strategy, the field that in theory unifies the actions of a firm and is dominated by Harvard economist Michael Porter-is related directly to bad management. In reality, Pfeffer's critique is of the so-called Chicago-school economic assumptions about utility-maximizing and of organizational behavior's lack of influence relative to strategy. Pfeffer rightly critiques how Porter-dominated strategy is taught.

Many other strategy academics find the same weakness in Porter, putting them into the third category of Reformers.

The third group of Reformers is the most narrow, involving faculty in a particular field talking to (or at) one another about how substantively that subject should be taught. As noted above, business strategy academics approach the subject from very different angles. Michael Porter, the most famous strategy academic, tends to approach strategy using tools of industry analysis and the firm's position versus others. Sharon Oster of Yale School of Management, challenges Porter less through refutation than by expansion, examining constraints on strategy coming from inside the firm.36 Michigan strategist C.K. Prahalad offered another perspective on strategy through the notion of "core competency," something that the firm can do well (a capability-based point-of-view) that also benefits customers, is hard to imitate, and can be extended to new markets (a competitive point-of-view). This diversity of opinions is hardly surprising or controversial, and it extends to every subject taught in business schools. But no matter the internal stakes in the debate over *how* the subject should be taught to MBAs, this group of Reformers takes for granted *whether* the subject should be taught to MBAs (Garten, 2005, p. 78).

Renegades

They are the strongest critics of traditional MBA programs, those who find both the content and delivery wanting. Ironically, the most prominent voice in this teaches at leading business schools: Henry Mintzberg, of Canada's McGill University and France's INSEAD.37 Mintzberg's critique of traditional MBA programs is multidimensional, focusing on delivery, content, and taking umbrage at the type of people MBA programs attract. In 2000, Mintzberg told *Fast Company*, "The MBA is a fabulous design for learning about business. . . But if you're trying to train managers, it's dead wrong. The MBA trains the wrong people in the wrong ways for the wrong reasons."38 As noted, besides offering a fundamental critique of traditional MBA programs, Mintzberg has helped build an alternative, the IMPM, focused more on practicing management that studying it-constructed to correct for the issues addressed in his critiques. Mintzberg's intellectual critique of traditional MBA programs is grounded in this concern for context. Mintzberg opens his 2004 broadside *Managers Not MBAs* with the following salvo: It is time to recognize conventional MBA programs for what they are- or else close them down. They are specialized training in the functions of business, not general educating in the practice of managing. Using the classroom to help (Reingold, 2000, p. 286) develop people already practicing management is a fine idea, but pretending to create managers out of people who have never managed. Every decade in the United States alone, almost one million people with an educational credential called the MBA descend on the economy, most with little *firsthand knowledge* of customers and workers, products and processes. There they expect to manage people who have that knowledge, which they gained in the only way possible-through *intensive personal experience* (Mintzberg, 2004). He finds traditional MBA programs' attempts to address the issue of context by varying delivery methods from lectures to games, projects, and simulations to be unrealistic: "The problem is that 'the real world' is not out there, to be plucked from some tree of practice. It has to exist in here-not just in the classroom, but in the head of the learner" (Mintzberg, 2004). Mintzberg also finds the case study method wanting. While acknowledging the case study method may be "as close as business schools have gotten" to practical experience, it is "hardly as close as they can get." (Mintzberg's critique of the case study method again hinges on context: "The skills developed in the case study classroom are the skills of decision making-just like in the theory-oriented schools. And, again, even these skills are highly circumscribed: The data for the decisions are given, while *tacit knowledge* of the situation is absent and so ignored " (Mintzberg, 2004). He goes on to assert that the case study method mirrors bad management as practiced in the field: What the case does simulate (and encourage) may be precisely the problem with so much managing today: The executive office where people sit around discussing words and numbers far removed from the images and feel of the situation under consideration, the verbal in place of the visual and visceral, management as some kind of artifact distant from the situations it so mightily influences. . . How is insight to come from debates about products no one has ever touched for customers no one has ever met? (Mintzberg, 2004) He also criticizes traditional MBA program content, which he sees as trapped in functional silos unrelated to how business is managed in practice: "Almost everything done in almost every business school today takes place in the terms of the specialized (Mintzberg, 2004) functions, whether an idea researched, a program designed, a course taught, or a professor hired." (Mintzberg, 2004) He faults the field of strategy in particular for failing to provide a unified view of the functions-laying most of the blame at the feet of Michael Porter: "Porter taught the business schools to develop analysts not strategists. . . With this shift from concern for synthesis to focus on analysis, the one field in the business school that was supposed to be about general management itself became narrowly specialized" (Mintzberg, 2004). He wryly observes that Porter and his colleagues were forced to break away from HBS's General Management group to form a new one: Competition and Strategy. But far from being a dispute about the shape of a particular discipline, the move away from "strategy as unifying synthesis" to "strategy as specialized analysis" made strategy less relevant to the practice of managing: Synthesis is the very essence of management. Within their own contexts, managers have to put things together in the form of coherent visions, unified organizations, integrated systems, and so forth. That is what makes management so difficult, and so interesting. It's not that managers don't need analysis; rather, it's that they need it as an *input to synthesis*, and that is the hard part. Teaching analysis devoid of synthesis thus reduces management to a skeleton of itself. This is equivalent to considering the human body as a collection of bones: Nothing holds it together, no sinew or muscles, no flesh or blood, no spirit or soul (Mintzberg, 2004). He faults MBA programs for failing to provide a unifying framework for the functions. He is equally skeptical about the Reformers' battling for the inclusion of leadership and ethics courses in the core curriculum. Without a unified view of management-and without students who have dealt extensively with organizational or ethical issues-such courses become mere surveys: "So the soft skills and the soft issues ended up as questionable content in the MBA programs, not because they are unimportant, but because the rest of the content and the nature of the students marginalize them." (Mintzberg, 2004) Clearly, for Mintzberg, neither the rivals nor the Reformers go deep enough in their criticisms of traditional MBA programs. The consequences, Mintzberg concludes, are both personal and professional. Personally, MBAs buy-into the illusion that no problem is beyond their solving, when the enormous complexity and context-dependence of those problems should inspire the opposite reaction-humility: "If the business schools were really doing their job, were truly creating leaders, their graduates would be known for their *humility*, not their arrogance. Certainly they would graduate with an acute appreciation of *what they do not know*" (emphasis added). 48 Professionally, MBAs tend to take jobs that keep them removed from the "nuts-and-bolts" of running a business: "The jobs that MBAs consider hot or cool are not the real activities at the heart of business. Companies generally do only two things of ultimate consequence: They make things, they sell things. . . MBA programs take people who have hardly ever made anything or sold anything and then make damn sure they never will." Mintzberg does not view the planning, marketing, and finance roles most MBAs enter as useless. Rather, they are attractive to MBAs for the wrong reasons: "[MBAs] are drawn to the hands-*off* activities, because that is where prior experience in the industry is least necessary and where the abstraction of aggregates-money in finance, targets in planning, statistics in marketing-shield them from the messiness of people and products. This amounts to an extension of that *secondhandedness* of business education into the world of work."

Building on the critiques offered by Mintzberg and others in coordination with the social thought of economist F.A. Hayek, is an additional criticism of the traditional MBA. It is contended that a critical flaw in the vision and practice of traditional business school programs stems from general neglect of what Hayek termed the "knowledge problem" (Hayek, 1945) among business scholars. Mintzberg touches on these topics, but never drives to the core issue: That by de-emphasizing the importance of dispersed, specific knowledge in the Firm, business schools may be teaching students to over-emphasize the beneficence of central planning in the firm (and correspondingly, the importance of their role within it). This has broad implications for the global business community and the performance of the firms within it. Because business schools shape the viewpoints of thousands of managers, failure to integrate Hayek's insights into their management theories may well cause management professors to misguide their pupils, with significant consequences for individual behavior and ultimately firm performance.

The Use of Knowledge in the Firm

Friedrich Hayek's "The Use of Knowledge in Society" (1945) was directed toward the challenge of national economic planning, but his observation that ". . . the economic problem of society is mainly one of rapid adaptation to changes in the particular circumstances of time and place"

(Hayek, 1945) just as accurately describes the challenge facing the firm. Hayek noted that knowledge is unclear, fragmented, and dispersed across society. Though he did not offer a precise definition of "knowledge," we might say that it is *the understanding, based on experience, reason, and an awareness of certain facts, about alternative actions and their likely consequences*. It is precisely this combination of individual understanding, combined with the local (i.e., confined, and not available to others), circumstantial nature of knowledge, that Hayek said made the centralized command and planning necessitated by socialist economic systems inherently inferior to decentralized systems. Just as knowledge is dispersed in such a manner across society, any student of organizations can attest that it is likewise fractionated within the firm. Hayek delineates three elements of the knowledge problem, each of which represents a challenge facing the firm as well (Hayek, 1945, p. 251) as following:

1. Communicating dispersed and tacit 53 knowledge to planners;
2. Discovering the best means of using this knowledge in planning; and
3. Determining who will do the planning

While implementation has emerged (among social sciences other than economics, at least) as a factor fruitfully studied in its own right, 55 here Hayek seems to embed it within the concept of planning, and we will do the same for the concept of graduate management education and the firm. 56 The conclusion one draws from Hayek's analysis is that decentralized authority in a system of liberty and free-moving prices best enables an economic system to produce wealth in a dynamic (read: Realistic, human) environment.

Holding decision-making authority in the hands of a few, on the other hand, wastes the particularized knowledge "of place and time" that enables a free society to prosper. It stands to reason that failure to distribute authority across the firm in a manner that enables it to likewise take advantage of "place and time" knowledge will generate consequences for the firm that in some respects approximate the consequences of socialism-low levels of innovation, inability to respond to economic changes, significant resource waste, low productivity, and so on. Insofar as the firm's ability to profitably serve customers depends on adaptation and innovation, failure to harness local knowledge undermines profitability. As Hayek notes, ". . . economic problems arise always and only in consequence of change" (Hayek, 1945). Realities like the decline in average firm tenure on large cap indexes increasing globalization of customers and competition, and the rise of strategy as an explicit focus of managers suggest that change will only become a more imposing feature of the firm's environment.

Failure to adequately respond to the knowledge problem, then, may well carry increasing penalties for businesses (Hayek, 1945).

The Use for Knowledge in Business Schools

The rise of professional management, however, poses a threat if it teaches practices and worldviews that contradict Hayek's observations as well as the wisdom embedded in the decentralized structure and strong performance culture that is the reality in some firms, and the aspiration (at least stated) of many others. As we noted above, early business schools were founded on a "Great Man Theory of Management." There is reason to believe this view persists. Bennett (1998) argues, for example, that the popular concept of Re-engineering (Hammer & Champy, 1993), which gained so much attention from business managers in the 1990's, is in fact a grand-planning approach to firm management, in which existing institutions and local knowledge are ignored in pursuit of an ideal vision constructed by a small group of insulated management experts. The same tendency can be found in the concept of "best practices," which assumes companies can improve performance simply by imitating the actions of top performers. Insofar as we find that the teachers of current and future managers "minimize the importance of the knowledge of the particular circumstances of time and place," 66 and further, that their students listen (and phenomena like Re-engineering suggest that they do), we might well conclude that neglect of the knowledge problem by business schools portends negative consequences for organizational performance. As noted, Mintzberg, though not versed in the language of Austrian economics, argues that neglect of local knowledge is precisely what most business schools teach, and more, that their students are listening (Mintzberg, 2004). The practical effect of the Master's in Business Administration (MBA), Mintzberg contends, is to elevate those with little or no practical knowledge of how the firm's actual work is done into positions of authority over those who do possess this practical knowledge. Worse, the typical MBA program divorces planning from implementation, 67 such that the practical knowledge of underlings is an afterthought. The real work of business, in other words, is strategy without context, and financial activity uninformed by strategy. Business schools teach future managers to view themselves as the key decision-makers, even though, according to Mintzberg, ". . . far more important, especially in large networked organizations of knowledge workers, is what they do to enhance the decision-making capabilities of others" (Mintzberg, 2004). He blames the mentality of business-school teachers (citing the literature of Harvard and other business schools to entertaining, if not methodologically rigorous, effect), the nature of the talent they recruit (relatively inexperienced students), and their teaching methodology. This last deserves special consideration here, because it bespeaks a mentality geared toward the neglect of local knowledge. Though some business schools have more courses featuring a traditional, lecture-the-principles approach, while others emphasize case study courses like those pioneered by Harvard, Mintzberg argues (as we observe elsewhere in this paper) that the two styles are converging, such that a student at any major business school is likely to receive instruction using both pedagogies-but little else. From Mintzberg's point of view, and relevant for our discussion here, these methods are indistinguishable in that they diminish the importance of local knowledge. A principles approach has little to say about "the particular circumstances of time and place," except insofar as students are reading and discussing Hayek or some other work that deals explicitly with the concept of dispersed knowledge and mechanisms for harnessing it (which almost none, as a scan of syllabi from any number of business school curricula will reveal, are doing). Mintzberg's description of the case study method, meanwhile, invoking the language from various sources marketing this approach, captures his critique of that presumably more context-oriented method: "Dozens of students sitting in neat rows pronouncing on stories they read the night before 'captures the essence of leadership,' exposes the 'big picture,' gives them 'responsibility for decisions,' promotes 'learning by doing,' puts the students 'at home in any management situation,' turns them into 'risk takers,' and makes them 'general managers.' It all sounds a bit silly, except for the fact that tens of thousands of graduates have left Harvard believing it" (Mintzberg, 1994).

While case studies at least seek to engage students in thinking about how to apply management concepts, "The data for the decisions are given, while tacit knowledge of the situation is absent and so ignored" (Mintzberg, 1996). He does not employ the concept of tacit knowledge in a Polanyian sense (Polanyi, 1966), but instead means something like local knowledge. The term is well-taken, however, because tacit knowledge is a form of local knowledge, and critical to discovery, and therefore to innovation within the firm. To note that the Captains-of-Industry mentality fostered in business schools neglects tacit knowledge, as defined by Polanyi, only underlines the conclusions drawn thus far. Mintzberg is not the only person familiar with business school pedagogy to question its effectiveness at increasing managerial competence. Porter, Muller, and Rehder (1989) likewise argued that business schools emphasize narrow technical skills over teaching the capacity to think, let alone manage. Chris Argyris (1980) concluded from his study of instructors at Harvard, Virginia, Stanford, Yale, and other top business schools that the case study approach not only fails to teach students to question the underlying values and policies operating in their firms, but actually encourages the opposite. Raelin (1990) argued that traditional business schools do not prepare students to engage personnel in a manner that facilitates organizational performance and discovery. Hayes and Abernathy (1980) contended that the decline in respect for operations and industry knowledge, and the concomitant rise of marketing, finance, and legal specialists to top ranks of American industry, can be blamed in part on the American business school mentality, a "preoccupation with a false and shallow concept of the professional manager . . . an individual having no special expertise in any particular industry or technology who nevertheless can step into an unfamiliar company and run it successfully through strict application of financial controls, portfolio concepts, and a market-driven strategy" (Mintzberg, 2004). Add a big helping of Michael Porter's *Competitive Strategy* (1980), which took business schools by storm in the aftermath of Hayes and Abernathy's critique, and their description is arguably still quite apt.