Handbook of Research on Teaching Ethics in Business and Management Education

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Chapter 32
The Social Responsibility of Business Schools

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ABSTRACT

Business schools teach stockholder and stakeholder perspectives for ethical decision-making, but what are the implications of those perspectives for the management of business schools themselves? From the stockholder perspective, faculty are agents in an organization financed by two types of principals—private donors and governments—with goals based on education's social and economic benefits. The essay addresses the stockholder perspective's issues of open and free competition, deception and fraud, and the role of required or desirable objectives. Some business school competition is open and free yet some is not. Deception and fraud do not appear significant. Objectives not specified by the principal may be required or desirable in pursuing educational objectives. Next, the stakeholder perspective suggests further parallels between business and academia. Three market failures—externalities, moral hazards, and monopoly power—are readily found in academia. Decisions do not incorporate all costs, there are numerous moral hazards, and monopoly power may arise.

INTRODUCTION

In 1970, economist Milton Friedman published his famous *New York Times Magazine* essay "The Social Responsibility of Business is to Increase its Profits". Friedman was concerned with the twin questions of why and how businesses operate. The title of the present essay is a play on his title, since the object of this essay is to apply concepts from Friedman and others to the operation and administration of business schools.

Business schools teach stockholder and stakeholder perspectives to help students make ethical decisions, but what are the implications of those perspectives for the management of business schools themselves? Ethics and integrity are a central theme in debates about corporate governance and corporate social responsibility (CSR), and may refer to concepts like property rights, agency, stakeholders, and market failures. Schools already address these concepts in terms of course content, programs, and research, but this

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paper takes a different approach. This essay takes the basic concepts and arguments of those two primary social responsibility perspectives—the stockholder and stakeholder views—and applies them not to the practice of business but to the workings of business schools, in order to stimulate conversation about how business schools do, might, and (perhaps) should operate.

Business schools are logical focal points for stockholder and stakeholder lenses. Like *any* organization, they require resources, have participants, and accomplish something. CSR and governance concepts are, at heart, about defining the purpose and process of organizational activity. Business schools also study and teach about governance, so it is appropriate and potentially fruitful to use our concepts and theories to examine our own organizations.

Business schools are well-equipped to develop this conversation. On the one hand, they are attuned to commercial and economic concepts. On the other, education is at the forefront of considering the alignment of social and business goals. Interestingly, the need to address the topic of integrity may be higher in business schools than in other fields—business students may be more likely to cheat than other students (Iyer & Eastman, 2006). Since academic and workplace integrity are related (Nonis & Swift, 2001), and since school practices and policies affect student honesty (Walsh & Toncar, 2008), the governance of business schools merits analysis and debate. Business schools generally address social and ethical issues in teaching and research, but the extent to which they create ethical environments remains a topic for investigation (Cornelius, Wallace & Tassabehji, 2007).

In the world of business school administration, there is one particularly notable external entity—the AACSB. The Association to Advance Collegiate Schools of Business has 600+ accredited members in three dozen countries. AACSB's accreditation standards address ethics, but in the context of curriculum content. Standard 15 states that business curricula are expected to incorporate "Ethical understanding and reasoning abilities" and "Ethical and legal responsibilities in organizations and society" (AACSB, 2011: p. 71). While AACSB's accreditation standards for organizational practices and policies business school management do encourage what we could term sound management practice, the standards do not appear to specifically treat ethics and integrity. In contrast, by applying well-known governance concepts, this essay will demonstrate that there are numerous areas that have the potential to pose substantial ethical concerns in business school administration and operations.

The stockholder and stakeholder perspectives have extensive bodies of empirical, theoretical, and philosophical work which can be applied to the study of business schools themselves. Business schools are neither disengaged observers nor merely participants in debates about the roles and inter-relationships of individuals, business, academia, government, and society—they are an integral part of what is being debated. They can and—I believe—should pursue a greater role in discussions of governance issues of social and ethical/moral importance, not only so that business schools can operate effectively, but to help fulfill our educational role in society, to strengthen our shared values of intellectual integrity, and to create and share knowledge, ideas, and beliefs.

BACKGROUND

The stockholder perspective (Friedman, 1970) and the stakeholder perspective (e.g., Freeman, 1984; Donaldson & Preston, 1995; Friedman & Miles, 2002) address business goals and decision-making criteria. In the stockholder view, property-rights and agency mean business should pursue owners' goals (typically, profits). In the stakeholder normative view, managers ought to be concerned about interests beyond those of stockholders, due in part to market failures within capitalism.

Friedman's famous (1970) essay, "The Social Responsibility of Business is to Increase its Profits", is succinctly eloquent. His remarkable piece puts forth a powerfully simple argument based on the notions of private property, free enterprise, and agency theory: Managers are agents paid by the principals of the business (i.e. stockholders) to pursue whatever objectives the principals specify. In capitalist economics, those objectives typically mean increasing profits. Friedman does warn that businesses must compete openly and fairly, without deception or fraud.

Friedman's essay addressed growing business restrictions and requirements. By the early 1980s, the political atmosphere and regulatory pendulum had begun moving in the other direction, so it should be no surprise that Freeman's stakeholder approach, contrary to the trends of political thought at the time, came into print mid-decade.

Stakeholder theory, beginning with Freeman (1984), acknowledges the economic principles underlying Friedman's stockholder argument. However, it points out crucial market failures inherent in the stockholder argument's reliance on free market capitalism. Those failures include externalities, moral hazards, and monopoly power, and are complicated by the broader reality that many parties may have an interest, claim, or stake in the company and its actions. First, externalities mean that firms can free-ride by externalizing costs of operation. The most famous example is pollution—the recipients of pollution, who must bear the consequences of it, may not have any other involvement with the polluter. Second, moral hazards are created by bounded rationality and information asymmetry. The firm may find it has incentives to pass on costs to buyers by not telling the full truth. The net present value of selling a defective product may far outweigh the contingent liability of the defect being discovered. For example, misrepresenting the wear-and-tear on a used car, or lying about the dangers of smoking tobacco, is the heart of a moral hazard situation. The third market failure in capitalism is the potential for monopoly power. A firm that can restrain competition can become more profitable by extracting more of the consumer surplus than it could in the face of competition. Monopoly power also may be inefficient from a Schumpeterian perspective—less competition means less innovation, which is suboptimal for the economy as a whole.

THE STOCKHOLDER VIEW

Agency, Principals, and Objectives

The stockholder view as typified by Friedman requires that agents pursue the designated objectives of principals. From this viewpoint, business school administrators and faculty are classic wage agents working for principals who invest in education by creating business schools. Those principals include private donors and government. The principals' objectives may or may not be explicit. With the exception of private, for-profit education companies, the principals' objectives are not the increase of profits but the social and economic benefits of education. For example, North Carolina's 1776 state constitution states that "schools shall be established by the Legislature… and all useful learning shall be duly encouraged and promoted in one or more universities…"

That same state's revised 1971 constitution intends education to support "religion, morality, and knowledge":

Religion, morality, and knowledge being necessary to good government and the happiness of mankind, schools, libraries, and the means of education shall forever be encouraged. (Article 9, Education Section 1)

The obvious stockholder concerns that arise for a business school are whether the principal's objectives are articulated, whether they are known by faculty and administrators, and whether they are pursued.

Competing Openly and Freely

Friedman's second stipulation is the need for open and free competition. Certainly, the multitude of business schools in the world compete for things such as students, tax dollars, donations, jobs for graduates, and reputation. In the quest to attract students, they appear to compete openly and freely on many factors, including programming, instructional quality, location, facilities, network opportunities, and placement resources/record. There is evidence, however, that business schools (or, more broadly, their parent universities) do not always compete openly and freely on price but, rather, form cartels to engage in collusive price-fixing. They may, for example, agree to standardize prices (tuition and board) or discounts (financial aid). For example, a U.S. Justice Department investigation of almost sixty colleges and universities led to an agreement by the eight Ivy League schools to cease cooperating on tuition and financial aid (Morrison, 1992). The Congress then created an anti-trust exemption that allows cooperation under certain conditions. Whether there are other forms of non-open, non-free competition among business schools is a question that may merit additional research.

Deception and Fraud

The third stipulation in Friedman's stockholder view of responsibility is that deception and fraud are unacceptable methods of pursuing profits. Clearly, however, they are highly profitable—the annual cost to companies in the U.S. of fraud and other employee crimes may be $400 million, as estimated by the Association of Certified Fraud Examiners (Nonis and Swift, 2001).

There may not be significant opportunities for business schools to engage in deception and fraud. The large number of schools that exist should serve to mitigate such behavior. However, the tools and training provided to business students clearly may be put to illegitimate use. That subject will be addressed later in this essay.

Objectives: Required or Desirable

In the stockholder perspective, firms invest in social or other objectives when required to do so or when in their best interests. If the firm is required, for example, to consider job applicants on the basis of personal merit rather than skin color, it must do so. (Arguably, in that example it would be in the firm's best interest to do so, anyway.) If a firm promotes its ethical decision-making, it perceives that goodwill be good for business. If a local business helps support a student soccer team, it perceives that the goodwill earned among customers will be good for business.

Business schools are subject to many of the same legal requirements and standards as firms. Occupational safety, hiring and labor practices, and conformance to accepted accounting principles are some of these areas.

Further, pursuing objectives other than the principal's primary objective may be highly beneficial. Educational institutions typically enjoy substantial freedom when defining educational objectives and how to pursue them. For example, differentiating a school by focusing on ethics might not be an objective identified by funding agencies, but it may help attract students, publicity, and the interest of corporate recruiters.

THE STAKEHOLDER VIEW

The following discussion briefly assesses the topic of stakeholders in business schools, and then discusses the academic parallels of three particularly significant free-market failures identified in the stakeholder view: externalities, moral hazards, and monopoly power.

Academic Stakeholders

In business we can readily identify groups with an interest or stake in the decisions a firm makes. Those groups have parallels in education.

Owners: Who provides capital? If the owners of an activity are its investors, then the parallel for investors in business education are, for capital projects, private donors. In the case of state-supported institutions, public taxpayers are an additional class of owners. For state-supported schools, public taxpayers also provide a portion of operating funds or working capital.

Customers: Who uses the organization's goods or services? In business, customers are those who purchase or use the product. In business education, students are the parallel. Whether they or other parties pay for their education, the tuition or budget allocations associated with students provide cash-flow for production and operating expenses. However, for faculty in research-oriented schools, it is arguable that faculty may consider their most important customers to be the users of scholarly work—other faculty. However, other than through journal subscriptions and conference travel, faculty generally do not "pay" for receiving the research of others. We may also consider society at large to be the customer, since education of their members is a fundamental aim of most societies.

Suppliers: Who supplies business schools with inputs? While students exhibit aspects of customers, they also are inputs into the process of education. For undergraduates, the suppliers are high schools, for graduate education they typically are businesses. Universities provide schools with their other primary human input—trained teachers and researchers.

Employees: Who is paid to work in a business school? Compared to most other types of organizations, the faculty employees of business schools seem to have an especially strong voice.

Community: What actors in the school's environment? If business schools are part of a university community, then the other members include the other departments and colleges in the university. Other business schools are stakeholders as well—one school's actions clearly may affect another. As one reviewer pointed out, communities and external participants make it complicated to apply traditional stakeholder group terms to the business school. To what extent does the business school perceive itself as a member of local, regional, national, or global communities, and how are the interests of those communities affected by the business school?

Market Failure: Externalities

Examples of traditional economic externalities—costs created by transactions but borne by neither party—can be found in pollution or the in consumption or degradation of communal resources. Although these examples do not appear typical of academia, we can draw some parallels by using an example of the external cost of growth in a business school.

What is the cost to society of growth in personnel? Business schools grow by hiring additional faculty and staff yet, even though those hires often are permanent, there is no obvious stage in the hiring process to estimate or justify and long–term costs of salary plus benefits such as on-campus services, social security payments and pensions, or healthcare). Certainly at the hiring level, the fully-loaded cost of faculty is not known, calculated, or integrated into the hiring decision.

What is the cost to society of growth in physical facilities? For example, it is not unusual for the physical expansion of a college or universities to raise the price of real estate in neighborhoods or cities. In some nations, governments and non-profit organizations are exempt from property, sales, or value-added taxes. Thus, by preventing alternative uses for land, a college's expansion onto new land reduces a municipality's tax base, both in terms of property taxes and in foregone taxes from businesses that might have occupied the same space. In a small town, campus expansion can have a significant impact on tax revenues and infrastructure. This creates tension between the perceived benefits of campus growth and the cost of subsidizing that growth through tax breaks and increased investment in roads, utilities, or other infrastructure.

Interdependency is more than real estate and utilities. As another example, the American Association of State Colleges and Universities (AASCU) embarked in 2003 on the American Democracy Project, an effort to focus colleges on preparing "informed, engaged citizens…who are committed to being active, involved citizens in their communities". By formally emphasizing on the civic function of colleges, the AASCU illustrates a central fact of education—how we educate students has implications for their subsequent interactions with and in society. Because business schools help teach people how to run society's organizations, the actions and behavior of graduates may create significant externalities. The impact of graduates will return in a later section on the nature of socialization.

Market Failure: Moral Hazards

The notion of moral hazard rests on non-disclosure. A seller may pass a known or foreseeable but hidden shortfall or cost to the buyer which the buyer does not perceive or understand. In the case of education, defining the buyer, or "customer", as the recipient of the school's educational services leads us to identify two obvious groups of customers.

Students as "customers". Although the notion of students as customers may simultaneously be a compelling metaphor and a distorting simplification, students do indeed pay a price for education, only part of which is financial. While many students pay tuition, many do not. All, however, commit the scarce resource of time to their studies. They must give something up in order to gain an education, and sacrifice of something valuable is the essential element in the notion of price, be it financial or otherwise.

The first and most obvious moral hazard in academia is whether the school provides the education that it has promised. Versions of this problem are akin to various moral hazard examples in business, including adulteration, false weight, and substitution. However, unlike many products, education may have few meaningful remedies for the student who experiences such hazards. Those hazards also may be particularly difficult for students to detect, as they are not experienced repeat buyers of education. Like most people who buy houses, most students obtain university education only once or twice in their lives.

Adulteration: If a dairy adds water to milk before selling it, the buyer may be unable to detect the dilution yet will receive less nutrition. Similarly, if a school provides educational activities, support tools, or faculty that cost less but are of lower quality than the student was led to believe, the student may not know the difference. The potential for adulteration may indeed be more acute in education than in many business segments, because of the difficulty of specifying and measuring the quality and importance of all the educational ingredients provided by a school.

False weight: If a green grocer puts a thumb on the scale to register a false (high) weight, the buyer receives unadulterated lettuce, but less than expected. Similarly, a school may take actions to make its education appear to be fuller than it is. A given quantity of content (e.g., a certain number of topics, exercises, or content hours in a course) may be stretched to fill up more space in the curriculum. A course might have fewer topics than similar courses at other schools. A course may be given more credit hours than it merits, thus reducing the number of courses the school must provide a student. Courses and faculty may be listed but never made available, or the number of courses required for graduation may be decreased.

There are other factors that affect the fullness or effectiveness—the "weight"—of education. The length of programs, the built-in interruptions for vacations and internships, and the relatively un-integrated nature of curricula all serve to discourage mastery of knowledge and technical skills. To address this concern and to gauge educational effectiveness, some schools adopt end-of-program comprehensive testing.

Substitution: This moral hazard may in some cases be easier to detect than adulteration and false weight. A construction company may contract for the delivery of lumber or steel of a specified quality, only to find that the material delivered is inferior and does not meet the necessary specifications. There may or may not be meaningful remedies in this instance, depending on such things as the nature of the purchase contract and access to the supplier. Some substitutions, however, are undetectable until a problem arises. Counterfeit goods, for example, may appear to be identical to genuine products yet reveal their inferiority materials or construction only when put to use.

Certainly, substitutions can and do occur in education without constituting moral hazards. If a promised guest speaker or field trip becomes unavailable, the school may provide an alternative of equal significance. Courses may be taught by different faculty than intended, or may not be offered at all due to circumstances. Over the course of a student's education, changes in curriculum structure may improve the logical flow of the education. Changes in accounting standards usually lead to changes in course content, while the rapid rise of social networking is likely to lead to its integration as a course topic in marketing, along with the concurrent removal or de-emphasizing of another topic. The arrival of a new faculty member enables a school to provide new elective alternatives. These types of substitutions are common and generally beneficial.

Substitutions comprising moral hazards are those which adversely affect the quality, breadth, or depth of the education. A poorly-developed or weakly-justified course may take the place of a better one when curricula change. Tussles over curricula are typical, yet the changes which ultimately are implemented may be driven partly by political considerations, not just by quality or relevance. Powerful faculty or departments may expand their required proportion of coursework within a fixed-length curriculum and thus reduce the breadth of the education. Accounting curricula, for example, are largely driven by the requirements of external bodies such as accrediting and licensing organizations, with the result that accounting students often have fewer opportunities for studying other subjects. Conversely, attempts to cover an ever-increasing number of possible subjects reduce the extent to which students can focus on subjects in depth.

Stimulating excess student demand: There is a fourth apparent moral hazard in relation to students. Like other professional schools, business schools know the basic nature of the employers of their graduates. Law and architecture students typically aspire to work as lawyers and architects, and most business students seek to enter business, whether as an employee or on their own as an entrepreneur.

A particularly salient problem in academia is that the desire to maintain an inflow of students may not mesh with the job market for graduates. For instance, many undergraduate students are required to take basic economics classes in college. In PhD-granting universities, such courses often are staffed by graduate economics students rather than faculty. Although this saves the school and society money, doctoral program intake becomes driven by demand for instructors and only weakly related to demand forecasts for trained economists, with the result that doctoral students may not be able to secure academic jobs when they finish. (Interestingly, this job market is one which economics faculty are highly qualified to forecast.)

At the master's and doctoral level, the number of students and degrees earned is relatively small. At the undergraduate level, though, there are additional pressures that may magnify the scale of this moral hazard. Classroom capacity and the number of faculty both are relatively fixed and thus their costs are relatively fixed. Physical infrastructure cannot readily be diminished, nor can faculty counts be easily adjusted up or down. However, revenue and budget allocation equa-

tions are highly variable, having at their core the number of students served. Tuition revenue for a business school or university depends on the number of students that enroll. Likewise, budget allocations from universities or governments depend in large part on the number of students enrolled. Thus, regardless of external demand for trained students, and in the face of competition which limits the ability to increase prices or per-student allocations, the business school has strong incentives to maintain or increase the number of students enrolled, regardless of whether there may be sufficient professional jobs available upon graduation.

Beside the need to cover fixed costs, program growth at all degree levels, from undergraduate to master's to doctoral, also may be driven by a desire for prestige or recognition within the academic community. Admittedly, there is a built-in check on the system, in that a school must inevitably take some responsibility for helping place its graduates in professional jobs. If it consistently fails to do so, then it will have a harder time attracting students.

As suggested above, there appears to be great opportunity for business academia, which engages in the education of business professionals and business scholars, to use the forecasting tools it develops, studies, and teaches to better link production with demand for its own graduates. And, although business schools often promote and invest in job-hunting assistance, it is unknown whether any programs offer students a guarantee of employment or of interviews as part of the student recruitment process.

Business as the "customer": As employers of graduates, firms are the other primary group of customers for a business school. In this setting, the same moral hazards of adulteration, false weight, and substitution apply. Students may be less well educated than schools imply. They may be well educated, but in fewer subjects than employers expected. And, they may be well educated but in different subjects than employers desired and believed.

The nature of socialization: As discussed above, from the student's perspective there is an additional moral hazard regarding demand for education, driven largely by the school's fixed costs. From the perspective of the firm that employs the graduate, there is a different additional moral hazard. Firms hire graduates because they believe the school has helped to screen students for ability, train them in basic business skills, and socialize them in terms of business norms, culture, and values. Of these functions, the effectiveness of training and the quality of socialization seem especially valuable for the employers of graduates. Socialization, however, is a thorny subject. More specifically, the extent to which schools can and do influence graduates' moral values poses a substantial moral hazard, not only for firms but for society at large.

For example, Kenneth Lay, the former head of the bankrupt firm Enron, had a PhD in economics. Many of Enron's hires had graduate degrees from top-ranked business schools, where the firm actively recruited. Harvard Business School was particularly close to Enron—its faculty wrote teaching cases on the company and at least one faculty member was a paid advisor to the firm. However, Enron executives and employees used their expertise and training to circumvent regulation, manipulate markets, and defraud investors in a multi-billion dollar enterprise. Business schools did not commit the crimes, but they did provide Enron the necessary set of skills.

In a related example, consider the recent widespread financial crisis brought on by trading real-estate-backed financial derivatives. Investment firms led and staffed by well-trained business graduates created, bought, sold, and insured derivatives that they neither fully understood nor adequately managed.

Whether business schools bear a measure of responsibility for the consequences of their graduates' business decisions is not a new issue, but recent worldwide economic difficulties have focused attention on the topic. The New York Times, for example, titled its analysis of the

ethical impact of education on MBA students and their decisions "Is It Time to Retrain B-Schools?" (Holland, 2009). In that analysis, Holland asked whether the emphasis on skills, tools, and decision-making that attended the rise of business schools over the last several decades led to the neglect of the broader social and ethical context in which business operates.

As an example of how business education might be re-thought, consider that academic degrees generally are seen as indicators of attainment, as stamps of certification. However, if they were earned as licenses subject to revocation or renewal, business schools might have a useful way to facilitate professional integrity among their graduates, as well as foster a demand for continuing education.

Potential for free-riding: Another form of moral hazard appears in the form of free-riding, or pursuing one's own objectives at the expense of another. Certainly, faculty work within the framework of an organization's defined expectations for workload, productivity, and form of contribution. In large part, however, faculty are free to do as they wish within those broad expectations. There is generally great freedom of choice in teaching, research, and service. This is part and parcel of the central values of academia—faculty members have great freedom to pursue intellectual inquiry in a manner that they define. Interestingly, many decisions by faculty, such as course content and methods, research topics, conference attendance, and sabbaticals are rarely required to be justified to an outside audience.

Market Failure: Monopoly Power

Classical economics suggests that monopoly industries, or industries approaching monopoly, are characterized by higher prices and lower supplies than in competitive equilibrium. Consumers pay more and demand is not fully satisfied. This extraction of consumer surplus from the market is associated with a reduced rate of innovation due to the absence of competitive pressure.

Some countries permit monopolies, while others prevent or strictly regulate them. For example, economic monopolies are possible in Great Britain. In the United States, though, the perceived abuses of economic "trusts" led to the Sherman Anti-Trust Act of 1890, under which monopolistic practices such as cartels, anti-competitive mergers, and other activities that limit competition are illegal.

For a business school, monopoly power may arise in two settings—relative to the other departments, colleges, and units that comprise the university, and relative to the student's desire for certain careers.

Just as the philosophy department is generally seen as the natural home for faculty and students especially interested in philosophy, the business school is accepted as the natural home for those interested in business. In many universities, however, there are overlaps. Students, faculty, and employers of graduates all may span those conceptual boundaries created by a university's organizational structure. Students and faculty participate in courses outside their home units, and firms frequently hire graduates with degrees in subjects other than business. Curricula across the university permit, require, or encourage students to take courses outside their majors.

And, the activities and offerings of the business school overlap with those of other departments. The business school may offer a course on ethics, or on the management and commercialization of engineering. The music department may offer courses for students interested in working in the music industry, while the art department may offer instruction in how to run a commercial art gallery.

In its primary subject areas, however, the business school essentially has a monopoly relative to the rest of the university, just as do other departments. As a consequence of the specialization of labor and resources, departments are practically constrained from substantial expansion into new domains, and they are culturally constrained from staking large claims in areas perceived to belong to others.

However, the more significant instance of business school monopoly power may be relative to the demand of students for certain careers. For example, if a student wishes to become a certified public accountant in the United States, he or she must take the CPA exam. Being able to pass the exam is insufficient—the student must have passed a particular number and set of specialized accounting classes, and the only place to obtain those classes is in the business school. It is not unlike achieving a license to practice law. The would-be attorney must pass bar exams, but is not permitted to take those exams until after obtaining a sanctioned degree from a law school.

The impact of this form of monopoly power may be substantial. On the output side, business schools are able to engage in a form of collusion with professional associations and licensing entities to restrict the supply of new entrants into the field. Like a medieval craftsmen's guild, this may serve to maintain standards of quality in a field like accounting but it also serves to protect existing accountants from price competition. On the intake side, it also serves to institutionalize business schools as the only way for students to pursue employment as accountants. Monopolizing entry into the field protects business schools from competition and requires the would-be accountant to be relatively insensitive to the price of education.

Monopoly power also rises in terms of Williamson's (1985) fundamental transformation, in which the number of potential partners shrinks as a relationship develops. Students may have many school choices at the outset but, once they choose and start school, switching is difficult. Education is generally bundled—with the exception of specialized continuing education, the great majority of business school courses are available only as part of a curriculum. And, when opportunities exist for students to attend multiple schools through reciprocity agreements, study-abroad programs, and co-listing of courses, those opportunities are defined by the school, not by the student. In effect, schools lock their students into sole-supplier contracts for education.

Interestingly, if business schools are run by faculty in a spirit of self-governance, those very same faculty make it difficult for themselves to change jobs. Faculty have relatively low job mobility, hiring processes are complex and slow, and research, teaching, and institutions are almost universally internally organized on a functional basis. The same structures and cultural attributes that encourage intellectual freedom and inquiry also loom large in the professional (and personal) lives of faculty. Thus, despite relatively flat hierarchies, business schools appear to exert substantial power over their employees. Power in universities has been widely studied—three decades ago Neumann (1979) demonstrated that faculty in physical sciences had more power relative to departmental administrators than faculty in social sciences, where the administrators dominated.

SUMMARY OF THE TWO PERSPECTIVES

The preceding discussion used well-known views of organizational responsibility to look at business schools.

From a stockholder perspective, business school employees are agents working for the public and/or private investors who provided the capital for the school. Friedman's (1970) essay implies that faculty need to know and pursue the investors' objectives. In contrast to Friedman's stipulations for a healthy system, business schools do not always compete openly and freely. Price collusion occurs, as might other anti-competitive behavior.

The application of the stakeholder view reveals a variety of potentially troubling issues in business school governance. One particularly strong group—faculty—may dominate decision making.

It is not clear that other stakeholders have strong voices in governance. The traditional market failures identified in the stakeholder view have parallels in business schools. There may be externalities associated with operation and growth. There are numerous moral hazard possibilities, including product adulteration, false weight, product substitution, stimulation of excess demand, poor student socialization, and free-riding by faculty. Monopoly power, the third market failure identified in the stakeholder view, also has its analogue in business schools in relation to other university units, students, and faculty.

FUTURE RESEARCH DIRECTIONS AND CONCLUSION

This essay provides an introductory assessment of the organizational governance of business schools using concepts from the stockholder and stakeholder views of corporate governance and corporate social responsibility. A variety of topics for further study and discussion come from this process of drawing parallels between business and business schools, and from exploring the applicability and meaning of business governance concepts to the institutions which educate people for the business world.

The concepts of central interest to stockholder theory include property rights, agency, the need for open and honest competition, and the role of objectives mandated by society or seen as desirable by business. The focal points of stakeholder theory include the groups affected by business decisions and actions and the nature and consequences of market failures such as externalities, moral hazards, and monopoly power. Each of these topics has an extensive body of empirical research, theoretical analysis, and philosophical debate in areas of literature ranging from law to economics to management.

There is a remarkable opportunity to apply those bodies of research, analysis, and debate noted above to the study of business schools themselves. Business schools face a dynamic, challenging, and exciting future. Vigorous debates continue over the roles and inter-relationships of individuals, business, academia, government, and society. Business schools are neither disengaged observers nor merely participants in these debates—they are an integral part of what is being debated.

Business schools can and—I believe—should pursue a greater role in discussions of governance issues of social and ethical/moral importance. Indeed, the social and ethical/moral dimensions and implications of business activity and decisions are often found in our teaching, research, and outreach. Nonetheless, business faculty can attest that neither our university colleagues nor the public view business schools as being in the forefront of leadership in ethical issues, whether in education, discussion, or action. In order to seek that greater role, however, perhaps business schools first should explore the implications of their own governance structures, mechanisms, and norms.

It is important to pursue this form of self-analysis, not only so that business schools can operate effectively, but to help fulfill our educational role in society, to strengthen our shared values of intellectual integrity, and to create and share knowledge, ideas, and beliefs. This essay demonstrates that business schools already possess an extensive body of knowledge which can provide the tools and concepts with which to study, debate, and improve the governance of our own organizations.

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KEY TERMS AND DEFINITIONS

Social Responsibility: An ethical concept in organizational governance that suggests an organization may have obligations to groups other than just its direct owners and investors.

Stakeholder: Internal and external individual and groups affected by an organization's decisions and actions.

Stockholder: An organization's financial owner/investor.