

Ten years ago, Jeffrey Garten was brought in to turn around the Yale School of Management. Did he pull it off?

# Hardly Academic

JEFFREY GARTEN IS NOT RETIRING this month as dean of the Yale School of Management. Rather, as he prefers to put it, he is stepping down from his academic post.

“Retiring” is probably the wrong word to apply to Garten anyway, nor can he really be classed as an academic. He’s only 59, and he’s already “stepped down” from two previous careers—in government, where he held senior economic and foreign-policy positions in the Nixon, Ford, Carter, and Clinton administrations; and before that, thirteen years on Wall Street, at Lehman Brothers, where he built up the firm’s investment-banking business in Asia, and at the Blackstone Group, where he worked on M&As.

When Yale brought in Garten in 1995, he faced a troubled MBA program. Actually, Yale didn’t offer an MBA degree but, rather, an MPPA—Master’s of Public and Private Administration. “Very shortly after I got there,” Garten says, “I changed the degree, as a symbol that we were not going to straddle—that we were going to be a business school. That was a big deal because many in the alumni body and at the university thought the MPPA distinguished Yale from other MBA programs. Sure it did, I told them, but we live in a world where sound bytes count a lot, and if you have to spend time explaining your degree, you’ve already lost the argument.”

The initials of the degree was hardly the only issue facing the new dean. Because of its reputation as a public-policy school, the Yale School of Management was disparaged as touchy-feely—as even being an “anti-business” school. Garten’s predecessors had roiled the faculty and graduates to the point where, in the early 1990s, unhappy alumni hired an airplane to fly over the stadium during a Yale-Harvard football game carrying a banner that said,



“15 Lousy Years.” No planes have flown over the Yale Bowl during Garten’s tenure, certainly a good sign but hardly the last word on whether he has turned around the Yale business school.

*Across the Board* editor A.J. Vogl thought to ask the dean himself during a visit to The Conference Board’s New York offices.

**Three years ago, your book *The Politics of Fortune* argued for the need to make business education more relevant to the post-9/11, post-Enron world. “Most business education,” you wrote, “is centered on what an individual must do to succeed, whether in climbing the corporate ladder or in starting a**

**new enterprise. Rarely does it ask the question, What does society require from its business leaders?” Is business education asking that question more frequently?**

I can tell you what I think society needs from its business leaders, but I don’t think that has any relationship

to how business leaders see themselves or how schools are educating students. But to answer your question: Are business education or business leaders living up to what society needs? My answer is definitely no. In the corporate world, the pressure to

be very narrowly focused on short-term considerations has escalated, if anything, since 9/11 and in the post-Enron era. The possibility of CEOs taking their eyes off the nitty-gritty of running the business is far less than it used to be. So any discussion that somehow business leaders ought to contribute to public policy or assist in community development or anything like that is more remote than it was in the past.

And when it comes to business education, for better or worse—and I think for worse—business schools are followers, not leaders. Typically, business schools hold their finger up to the wind and ask, What do our customers want? They have two kinds of customers. One is the people who are doing the hiring, and the other is the students. I happen to think that's a pernicious concept—the idea that students are customers—because it assumes that students know best what kind of education they should have. But that is the culture in most business schools.

**In that book, you also recall the Committee for Economic Development of the 1940s and the corporate leaders of that era, lamenting that we don't seem to have their counterparts today. Walter Wriston, whom I interviewed recently, made the same point. Do you see any prospects for that changing?**

No—not that I wouldn't like to see it change. The time for change would have been right after 9/11 and after Enron. Those two events together created an entirely different environment, one in which security meant a lot more to citizens. At the same time, it was an environment in which trust in business was demolished, so if there ever was a time for business leaders to show some kind of statesmanship, that was it. They have been very slow to develop any kind of partnerships with the government when it comes to security, and in terms of corporate governance most companies have been dragged kicking and screaming into the post-Enron era. And I think we're already beginning to see a very strong back-



lash against the new regulations. Now, admittedly, some of those regulations are really imperfect.

#### **Like Sarbanes-Oxley?**

Yes. Sarbanes-Oxley was passed very quickly, and there are a lot of rough edges to it. But it was extremely important, a real milestone for our government to be able to actually pass that kind of legislation with the speed that they did. And surely there are some modifications to be made in it, but business leaders who are griping that we are over-regulated have a very short memory as to the weaknesses in the system that were revealed by Enron and that continue to be revealed to this day.

**Let's talk a bit about those whom you reluctantly characterized as the customers—the MBA students. A lot of attention is paid to**

**the question, What is an MBA worth? Is the attitude exemplified by that question inevitable and unavoidable?**

I think so, because unlike law or medicine, you don't need the degree to enter the field. People don't ask that question so much when they earn a medical degree, because they have to have it in order to be a doctor. They have to have a law degree and pass the bar exam before they can practice law. But in business you don't need this degree—indeed, some of the most distinguished business leaders are engineers or scientists, or don't have any degrees, or haven't even gone to college.

So I think it is a very rational question for a young person to ask about the return on an MBA degree. But getting back to the idea of customers, over the last fifteen years there have been a lot of ratings of business

schools, and these ratings are very akin to customer-satisfaction ratings. You're basically asking the students, How good was the experience? That presumes that the students know what it is that they should be learning, or whether the environment in a particular school is better than another school that they never attended. And that attitude really undermines the notion of education. If you don't believe that the educational institution and the professors know more about the learning process than you do, then you shouldn't bother to go to the school. The notion that these are customers deflates a lot of quality; if professors are constantly rated on how well the students like them and the course, then the rigor and challenge of the course is oftentimes diluted. In other words, the measure of the professor's success in the classroom is an artificial measure. So all these ratings have had the effect of dumbing down the curriculum of a lot of business schools.

**Speaking of medicine and law, from time to time we hear arguments that management should be a profession like those other disciplines. Is there any substance to those arguments?**

There is a case for having some sort of national proficiency exam for people who come out of business school. There are so many business schools with different philosophies that employers would benefit from knowing whether graduates have really absorbed the central concepts. I cannot conceive of the possibility that this would be a qualification to enter the business world, as it is in law or medicine, but it would be another criterion for evaluating people, and it would mean that those students who are able to coast through a lot of the courses would, at the end, have to make sure they knew a lot of the stuff that counted.

You can't measure everything by such a test, of course, but you can measure some things, and that would allow the student from San Diego

State to compete with the student from Harvard, and in many cases the differences might not be as great as you might think. And that would force schools to make sure their graduates had the fundamentals under their belt. Of course, there is not a prospect in the world of this happening.

**I was going to ask whether you had advanced this idea at all.**

I haven't, but it's been in the air. The idea that I *have* advanced is that of a three-year business degree. When you look at how the world has changed—the massive impact of globalization, the fundamental re-vamping of corporate governance, the growth of companies not just across borders but reaching into the far corners of the world, the increasing complexity of the financial markets—all of this is a lot different than it was ten years ago.

So to say that a two-year business degree covers everything is simply not credible. It takes three years to get a law degree, four to get a medical degree. I think there's a real case to be made for a three-year MBA. But there are no takers for this idea—no support from the academic establishment that I can tell, and meanwhile students are clamoring for a *one-year* MBA because they're anxious to get on the job and into the workforce.

It all depends on the question you ask. If you ask, What is the purpose of a business school?—and if the answer is, To get a credential, to get a degree, to punch a ticket—then what's the difference whether it's one year or two years? But if the answer is, To

leaders will be making crucial decisions at the intersection of bioscience and business. Where are they going to get the knowledge and experience to make those decisions?

In other words, I have an exalted view of the possibilities of business schools. I just don't think too many people share that view.

**You've enumerated some of the many changes in the great world over the last ten years, but what about the MBA students themselves? Are they different today than when you first arrived at Yale—sharper, smarter, better?**

They're much more savvy when it comes to information technology. Ten years ago, we had to have a lab to teach some people how to use computers. The labs are gone now. And since our students often have worked a few years before coming to business school, they come with the experience of using computers not only in college but in the workplace. I think students today are also much better traveled. Many of the Americans have worked abroad. Of course, the other thing that's happened in the last ten years—at least at Yale, which is the only place I really know—is that there's been a very strong increase in the number of foreign students. Just to give you an example: When I got there ten years ago, we had fifty applications from China and maybe three students. Now we have five hundred to seven hundred and fifty Chinese applications annually and twenty students a year, and if we wanted to, in one week we could generate three times that number of applications. We've also had a huge growth in students from India.

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create leaders with a much broader foundation and a much greater understanding of the globalized and complex world that we live in, that's something else again. For instance, a lot of future CEOs and business

**It may be premature to identify a trend, but I wonder how many of these students will return to China and India after they earn degrees.**

I go to China quite a bit, and I've just come back from a week there.



Five years ago, when I went to Beijing and met with all the alumni of our school, there were six—we fit around one table. Last week, there were fifty, and they were all young, and they all had graduated in the last three or four years. They were into venture capital, private equity. In their eyes, that was the future. After Yale, they came right back to China. If there was a detour, it was one year at Goldman, Sachs or McKinsey but, oftentimes, at those firms in China or in Hong Kong. And likewise the Indians—they used to go to Silicon Valley, and some of them still do, but the roundtrip to India is much closer for them.

In the United States, we have always educated a lot of foreign students, and historically they have stayed here. But China is making a huge effort to bring them back, and to bring them back quickly. This effort is being helped by the fact that American firms have set up large research-and-development establishments in China. So the students have the chance to get back home while working under the umbrella of an American or European firm.

I think we're far better off having foreign students come to the United States for education and then leaving than if they didn't come at all. But it is not quite the same as it was before, when we could tap into the best and brightest from around the world for our own economy and productivity.

**These R&D partnerships in China—are they another example of short-term thinking on the part of the U.S. companies? Long term, won't they be, if not squeezed out, at least dominated and eventually absorbed by the Chinese?**

I wouldn't look at it that way. This is an example of something else: There is a growing disconnect between the interests of American firms and the national U.S. interests. Right now, when American firms go abroad and transfer their R&D capabilities to China, they are doing something that is very much in their interests. I don't deny that, and I don't

criticize that at all. They are basically saying, We want to be nearer the customers; we want to tap into expertise around the world—and in many cases it's at lower cost. So if I were a shareholder of a company, and I saw that it was setting up in China, I would consider that a plus. But as an American citizen, I'm apt to say, Well, these firms are beneficiaries of basic science in the United

they have grown up too fast, just in terms of the texture of their own lives. But we are a much better school for having them.

**Some charge MBA students with being mercenary. Are the Chinese or Indians any different in this regard?**

I wouldn't use the word *mercenary*, at least with regard to Yale. We tend to attract students who have a

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States that has been funded by American taxpayers. As soon as they develop anything now, it's instantly transmitted to the Chinas and the Indias of the world, where they're employing Chinese scientists and Indian scientists. It's a nice thing that they're building up their economies—and we should get some advantage from that in terms of exports—but they're building up their economies to compete with us.

It's not necessarily in the American national interest if we are transferring the crown jewels of our knowledge society and the cutting edge of our research and development at the same time that there's a clamor for bigger budgets for the National Science Foundation and more basic research at U.S. universities that the Chinese can tap into. So in a way, the United States is a gigantic subsidizing mechanism for the rest of the world.

**Are the Chinese and Indian MBA students different from their American counterparts?**

I don't want to make a comparison, but I'd say they tend to be really good. Very, very smart; very motivated. They are obsessive about learning everything they can. At a place like Yale, they know they have won the lottery, and they are determined to capitalize on it. I have not met any Chinese or Indians at Yale who have said, Well, the hard part's over. They really dig in. They're very serious, and I feel that sometimes

streak of public interest. It doesn't mean they aren't ambitious, but if you asked them, What would you like to do? invariably it's two things at once. They'd like to be a star investment banker—but also run a foundation. They'd like to be a CEO who's on the board of Lincoln Center. So among the top business schools, we attract the least mercenary kind of student, if that word is used in a negative way. I think that oftentimes the Chinese and Indian students are less broad-minded in that respect, that they have a much more focused view of what they want to do, and they're not coming to an American business school to run a global NGO or to acquire management skills that could be transferred to the public sector or the nonprofit sector. They want to make money. They're young, and they're products of societies that have repressed opportunities for a long time and are now opening up.

**You've been at Yale for ten years. Do you think the MBA students you see today are more conservative than when you arrived?**

I'd say more *sober*. These MBA students lived through the technology bust, the corporate scandals, and 9/11, and they have seen a lot of their colleagues let go in the midst of companies actually doing better. They have seen the productivity revolution and the outsourcing revolution, which has allowed companies to prosper without hiring more people. So I think the students graduating

right now are far more realistic about the future—that it's going to take hard work to make it. It's a much healthier attitude.

If I compared them to students of six years ago—1998-99—the students back then were quite convinced that in just a few years they would make a fortune, and they were already talking about what they were going to do after that. At one of the sessions where I was welcoming them, I remember saying, A lot of you in this audience think you're going to make a billion dollars in your first five years, and I really hope you do, and if there was ever a time in American history where it can be done, this is it. But only one word of advice: If you make it, don't think you're *worth* it. You are the beneficiaries of circumstances that you had nothing to do with. So it's going to be sheer luck. Take it, do good things with it, but don't think you're that good.

**Since then, of course, there have been the Asian financial crisis, the technology bust, the collapse of trust in business leaders—do you think all that has made MBAs more cynical?**

No. Let me put two things together. If you take the Asian financial crisis, what you have there is a collapse of the philosophy that if you only open your markets, you'll be better off. That's what the Asian countries did, and it was like, as a friend of mine said, a lightbulb plugged into a nuclear reactor—the nuclear reactor being the world economy. They weren't ready or prepared; they didn't have the regulatory systems. It was too soon and too fast.

Then, if you add to that all the business scandals five years later, you would think there would be tremendous cynicism, at least in Asia, about markets and capitalism. But that's not the case. I can't explain why, but all the Southeast Asian countries have hitched their wagons to American-style capitalism, and they seem to have taken these huge setbacks in stride.



**Today, the shareholder-*über-alles* view is in the forefront of management thinking. Is that view considered a fact of life for MBA students, or is it questioned?**

*Über alles* is rarely questioned. But it's how much *über alles*. We debate issues like for whom is a company managed, and how do you take into account the employees, the suppliers, the customers, and the community where the company is located. The students at Yale who say that it's just about shareholders are a distinct minority. The idea that there are other constituencies and that they are important is an article of faith. How much and how you weigh them and take them into account—those are issues that we debate all the time, albeit inconclusively.

**We were talking earlier about CEOs and the various scandals. Do MBA students feel that**

**there has been a real crisis of leadership, or are these leaders considered anomalies or aberrations that are not a signature of the system as a whole?**

There's a recognition that something very serious has happened, and that the few-rotten-apples-in-the-barrel theory is a shaky one. The incidence of doing things that lack integrity is far broader than most people would have thought. If the scandals had been limited to Enron and WorldCom and Adelphia and HealthSouth and a few others, that would have been one thing. But there was a second wave: Fannie Mae, Boeing—not the affair but the ethical lapses—and the question marks hanging over AIG and Citigroup. These companies are American icons. You can argue that this wave is definitely not as serious as the first, but these mis-



steps really raise some questions.

I would say one of the most underreported things that have happened—it just happened in the last week—was the Federal Reserve saying to Citigroup: You can't do any more mergers. This in a way is far more serious than indicting a CEO. This is basically controlling the strategy of one of our largest and most global financial institutions, one that has been extraordinarily admired.

So I am not prepared to say that all is well in corporate America now that the scandals are over. I am very apprehensive that something is happening now which is another wave, and that as the magnifying glass is put on more companies, and as boards become far more diligent and approach zero tolerance of mistakes, we may see more rather than less toppling of CEOs. I hope that's not the case. I really hope so. But you ask how do students feel, and I guess my answer is that you can forgive them for not knowing exactly how to feel.

**Given these conditions in corporate America, do you expect more rather than less government regulation in the future?**

I see no letup in government regulation. The companies that are be-

ginning to fight a rear-guard action against Sarbanes-Oxley, saying that it's over-regulation, are in danger of overplaying their hand, because there is absolutely no sign that the public feels that the scandals are behind us. Most observers would have said, right after Sarbanes-Oxley, that as soon as the markets return everybody is going to forget about all this stuff. I think they got it wrong.

**We began our conversation talking about how, fifty years ago, CEOs saw their role as much more integral to the management of the economy, that they were more statesmanlike.**

Right. There's lip service to that now, but I think there's almost none of it. This has profound implications, not only for what business is going to be about but for what the government is going to have to do. You can't have it both ways. You can't say, We as business leaders are going to take a very narrow view of our role, and also say that the government should not be in our lives. Somebody has to take responsibility for the public framework in which business operates. If it's business leaders, they have to develop voluntary codes and oversight. One of the great challenges now is the evo-

lution of a global regulatory framework—common standards for accounting, corporate governance, core labor standards, environmental protection, and so on. In discussions of globalization, for instance, business should say, Let us take the lead—we know more about that than governments because we're already all around the world. When I was undersecretary of commerce in the Clinton administration, I certainly pushed that idea. As business leaders shrink into their shells, they are creating a huge vacuum in which government *has* to enter.

**Looking back over your ten years at Yale, is there anything you regret doing—or not doing?**

Yeah. Because I was a newcomer and because of the state of the school, I did not act as boldly as I could have. I don't regret anything I did, but I arrived there with a few ideas that I backed off of prematurely. As a result of having been a trade negotiator in Washington, and having negotiated with China over the WTO, I knew what China was going to become—the second most important country in the world. I arrived at Yale wanting to create the first great center to study business in China. I was going to get support from every major American company that was in China, as well as from Chinese leaders. But when I approached the faculty with this idea, they thought I was crazy. None of them had a big interest in China, and none wanted to go off on what they considered a tangent. Why, I asked myself, should I get involved in this huge undertaking if they didn't support it? So I decided not to do it, which in retrospect was the wrong decision. I know today that a dean can be a very forceful leader if he's willing to be bloodied and take a lot of lumps. But what you find out is that the longer you're there, the harder it is to make a radical change. I still think it's a great idea, and to this day that kind of center or institution doesn't exist. ♦