

Your Turn

By Rakesh Khurana and Herbert Gintis



What Is the Purpose of Business?

If we were to ask physicians to name the central purpose of their profession, it's likely they all would answer, "To save lives." If we asked scientists the same question, they would probably respond, "To make new discoveries." And if we asked educators, they would say, "To teach the next generation."

But what would happen if we asked the same question of executives, entrepreneurs, managers, stockbrokers, consultants, and others whose careers fall under the aegis of "business"? It's likely that there would be no consensus among them about the purpose for their profession. Some might believe their purpose is to maximize shareholder profit; some might cite a service to community; others might emphasize their personal goals and interests. We believe that, unlike other professionals, managers simply do not have the same overarching understanding of why they do what they do.

That's not the way it was at the onset of management education. In fact, when Joseph Wharton founded The Wharton School at the University of Pennsylvania in Philadelphia in 1881, he believed the school's guiding purpose was to graduate students who would "serve the community skillfully as well as faithfully in offices of trust" and "aid in maintaining sound financial morality."

Over the last century, however, business schools have placed less emphasis on a socially driven objective. Even as business schools incorporate topics such as eth-

ics, corporate social responsibility, and self-assessment into their curricula, they have yet to adopt a universal sense of purpose for the role of business in today's society. We believe that, to return to the path that the founders of management education envisioned, business schools must create an identity and sense of shared purpose for the profession they represent.

Business students pursue business degrees for a variety of reasons. They may view business schools as places where they can increase their social networks or earn valuable credentials. They may view their business educations as stepping stones to successful, lucrative careers.

We do not disagree that a successful business is one designed to make money, or that successful business graduates should be prepared to add value to an enterprise. Still, they must also be able to define "value" in terms that go beyond the monetary. Too often, students learn to view the corporation solely in terms of profit generation, not in terms of service to its community. Worse yet, in their ethics courses, students will say they know the difference between right and wrong, but they don't view "doing right" as essential to business success. They learn about scandal-inspired measures such as the Sarbanes-Oxley Act and often believe that brute-force legislation is the only way to compel human beings to do the right thing.

Business schools have added courses on ethics and corporate

social responsibility, in part, to lead students in a different direction. Educators are experimenting with more courses, more research, and more centers devoted to ethical leadership. But many are uncertain whether these initiatives will actually make their students more honest—or whether they'll make the corporate scandals of the past less likely to occur in the future.

This uncertainty erodes their sense of purpose. When business schools produce graduates who are unsure of the primary objective of business in society, how can society know exactly what role business schools play in the world?

Business schools can alleviate this uncertainty by offering students a larger vision of what business can, and should, accomplish for the world. We believe that business schools can be considered as important to a strong society as science is to progress or as doctors are to good health.

Those who think that students wouldn't want to follow a socially driven mission in their business careers should take a cue from game theory. Game theory experiments show that most of our students are neither comprehensively selfish nor selflessly altruistic, but instead care about character virtues such as honesty and fairness. They would embrace a socially driven central objective for business.

For example, in an experiment called "the public goods game,"

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first conducted by Ernst Fehr and Simon Gächter, ten players are each given ten \$1 bills. The players are told that they must choose how much of their \$10 to place in a common fund. Whatever they place in the fund will be multiplied by five and divided among all players. In this case, every player has an incentive to contribute as little as possible, but hope that others contribute as much as possible. Fehr and Gächter discovered that most players begin by contributing about half of their money; by the tenth round, they contribute almost nothing. When one or two players inevitably place little or no money in the fund, more trusting players get angry. In the next round, the only way they can retaliate against the cheapskates is to put in no money at all.

In a variation, players are informed how much every other player contributes to the common fund and have the opportunity to punish selfish players directly, at cost to themselves. If all players were driven by selfish motives, they would have no incentive to punish because it would cost them money. However, cooperative participants punish the selfish. They want everyone to work in the best interests of the group, and they're willing to lose money to bring about that result.

In yet another version, players are allowed to discuss their intentions beforehand and make promises about how much they will contribute. Studies show that when players are allowed to make promises, they all make more money than they do in experiments where no promises are made. The majority of people don't like to lie—if they say, "I promise to contribute X amount,"

they generally do. The more commitments players are allowed to express, the higher the level of cooperation in the game as a whole.

In many ways, these experiments offer business schools a foundation on which to build a central vision for the business profession. Fehr and Gächter show that, when left to their own devices, most people will set up a system of reciprocity and moralistic punishment. Business schools that understand this side of human nature can publicly elicit students' commitment to a central purpose for enterprise. They can actively encourage them to work together toward a common goal, for the benefit of the common good.

In 1925, Wallace B. Donham, Harvard Business School's second dean, spoke at Stanford University's School of Business on the topic "The Social Significance of Business." Donham noted that the world's problems would not be solved through governmental or police intervention, but "from within on a higher ethical plane." The primary objective of business schools, said Donham, "should be the multiplication of men who will handle their current business problems in socially constructive ways."

Over the last 25 years, business schools have lost this fundamental emphasis on the socially motivated manager. Rather than acting primarily as "schools of management," they have become schools for brokers, bankers, consultants, inventors, and entrepreneurs. The MBA itself, once a degree with a clear role and distinct boundaries, has become an umbrella term for advanced business education. There is no universally understood role, no explicit focus on, or discussion about, what an

MBA means to the profession or to society as a whole.

Fortunately, a few business schools have returned to the "socially constructive" objectives set out by Joseph Wharton, Wallace Donham, and other founders of business education. They have adopted a more values-centered model in their curricula, offering students a clearer direction in their education and sense of purpose after they graduate. Still, too many other schools have yet to define for their students a common central mission.

If someone asks our students to pinpoint business's true mission, we want them to have a compelling answer. Business faculty must begin a dialogue to come to an agreement about what the moral responsibility of the corporation truly is. As educators, we can return the profession to the principles on which management education was founded. After all, human beings have the capacity to surmount incredible challenges and accomplish extraordinary goals, given the right institutional conditions. Business schools are uniquely positioned to put those conditions in place—and to graduate students who have an overarching sense of purpose in their careers. **Z**

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