

B-Schools and the Common Good

When many people think “business,” the word “benefactor” may be the last to come to their minds. Some may first think of Gordon Gekko, the unsavory character from the 1987 American film “Wall Street,” whose proclamation “Greed is good!” perverted Adam Smith’s “invisible hand” of the free market. Many may think of the historic collapses of Parmalat, Enron, and WorldCom; the stock market scandals; and what appear to be endless stories of corporate malfeasance. Their perceptions are reinforced by the media, which often portrays business more for its travails than its abundant successes; and by Hollywood, which often casts business as the villain, from the pharmaceutical industry in “The Constant Gardener” to the oil companies in “Syriana.”

Obviously, that’s *not* what business administrators and educators think. Hundreds of thousands of us devote our professional lives to leading, working, and teaching at one of the world’s many business schools. Even so, we must consider the *perception* that young people in primary and secondary schools have of business. What do they really know about capitalism or the workings of a free market economy? And to what degree do business school students themselves understand how business truly functions in society?

Given the messages it receives from popular culture, the world may underestimate the power business has to change society for the better. But despite the din of criticism, the fact remains that most of humankind’s hopes for its future are made attainable by enterprise. Free market capitalism, in terms of its benefit to humankind, has outperformed every economic system ever created. U.N. Secretary General Kofi Annan has it right when he characterizes poor countries as being poor of business.

Three trends in particular—outsourcing, technological advancement, and globalization—promise to make an incredibly positive impact on the lives of those who live in underdeveloped economies. These trends, however, are often *blamed* for the world’s problems, rather than viewed as solutions.

I believe that business schools must help students understand the value of these trends and develop more positive perceptions of business. Business students must understand how the condition of the global population can be improved by an expansion of healthy, effective businesses throughout the world, and why commercial trends such as outsourcing, technology, and globalization have roles to play in developing a strong, interdependent global economy. Students need to know how they benefit, both professionally and personally, from the proliferation of free markets. As business educators, we must make them aware of the link between their business careers and the betterment of the human condition.

Outsourcing as Opportunity

Of all the trends to give business a bad name, “outsourcing” is the most notorious in many industrialized nations. Critics of outsourcing bemoan its localized, short-term effects on job growth; but in reality, the long-term effects promise to improve the prospects of all countries.

Two dramatic examples of the positive effects of outsourcing by companies in the Western world are Hong Kong and Singapore. Today, both are thriving economies

Business schools have a vital responsibility: They must teach their students—and the world—that capitalism and commerce are essential forces in changing lives for the better.

by Louis E. Lataif



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that rival the world's most developed. In 2003, exports to Hong Kong and Singapore from the U.S. amounted to more than \$35 billion; exports from the European Union amounted to nearly \$38 billion! But just 25 years ago, American and European companies were criticized when they exported jobs to Hong Kong and Singapore, where the industrious populations were then paid Third World labor rates. We see that same phenomenon today as Western companies look to India and China as sources for low-cost, high-quality work.

As Western companies become more cost-competitive through outsourcing, their financial health strengthens. That produces increased stock values, which drive improved performance for pension funds and mutual funds. In turn, that increases the net worth and retirement security for millions of people.

An example of a Western business "villain" that deserves a second look for its impact on the global human condition is Wal-Mart. Wal-Mart saves U.S. consumers an estimated \$20 billion to \$30 billion a year and has grown to be one of the world's largest companies. And with its rigorous attention to cost and price, Wal-Mart has been instrumental in keeping inflation rates at historically low levels. It's said that half of all container cargo on the world's seas is destined for Wal-Mart shelves! Hundreds of thousands of jobs have been created in countries which supply Wal-Mart with its inventory.

Business students must understand how important it is that responsible outsourcing be allowed and encouraged. As global companies outsource, bringing new employment and new opportunities to the world's less developed regions, citizens of those countries begin to acquire the means to improve their quality of life. In the near term, one consequence of outsourcing may be a painful loss of some jobs in Western countries. In the longer term, however, it creates millions of new consumers of the world's goods and services. Industrialized nations are among the prime beneficiaries of that increased global wealth.

Technology as Catalyst

Then there are those who argue that business's continual ingenuity and adoption of new technologies, not outsourcing, are the trends to fear. They say that technology, which has brought the world into the digital age, plays a larger role in decreasing labor content than outsourcing ever will. In fact, in a recent *Wall Street Journal* survey of economists, 84 percent of those responding thought outsourcing had minimal or no impact on job growth. Technology-driven productivity increases were noted to be a much more significant factor in limiting job growth.

In the U.S., for instance, improvement in productivity rates is running at all-time highs. For the 20-year period ending in 1990, U.S. worker productivity grew at less than 1.7 percent annually. From 2001 to 2005, however, it grew 3.6 percent annually. In recent years, productivity around the world has similarly increased—by nearly 6 percent in Taiwan, for example, and by nearly 10 percent in South Korea. Better productivity means that more work can be done by fewer people. Machines, not people, are now building machines.

To some extent, the technological naysayers have a point. With technological advances, it simply takes fewer people to produce the goods the world consumes. New technology has reduced manufacturing employment worldwide. From 1970 to 2003, manufacturing employment in ten countries tracked by the U.S. Bureau of Labor Statistics fell 30 percent. So we may applaud increased productivity and low inflation rates that come with greater technological prowess, and we may welcome the lower prices on goods and services and cheer increased stock values. But we dread the job loss that accompanies these benefits. As a result, many view business's adoption of technology as an act that robs people of their jobs, rather than as a catalyst for competition, progress, and innovation.

The advantages of business's adoption of technology far outweigh the drawbacks, however. Technological advancement does not necessarily lead to a world where employment prospects steadily decline. It should, in fact, emphasize the need to create new markets and expand the number of global consumers. An increased market size requires increased production to meet expanding demand. That can only happen if businesses and jobs are brought to the developing world. If the number of able consumers around the globe increases from 2 billion to 5 billion, Western countries simply cannot lose.

History as Teacher

Outsourcing and technological advances work together to push business into global markets. Just as many businesses inevitably sought out lower cost sources within their nations' borders, they now look to other countries to seek economic advantage. Digital technology and the speed of travel have accelerated this process, lowering barriers everywhere. Globalization has become a force, much like gravity. It can be resisted, but it cannot be stopped.

Many view globalization as a new threat to national welfare. In fact, the recent rejections of the new EU constitution by France and Holland reflect, in part, their citizens' anxiety about what outsourcing and globalization may mean

for them. For many people, phenomena such as globalization and outsourcing constitute a dilemma—and great fodder for political debate.

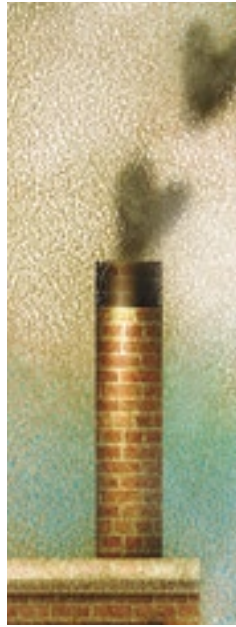
What they may not understand is that we've seen shifts like this before, albeit on a smaller scale. In the end, they have historically worked to improve industry, not impair it. In 1860, for example, 58 percent of Americans worked in agriculture. Then came the Industrial Revolution, which relocated those workers. Today, only about 2 percent of Americans work in agriculture; but thanks to modern technology, they are feeding a U.S. population ten times larger than it was in 1860. Moreover, they do so as they export 18 percent of their production!

In Ireland, the digital age did not destroy its citizens' employment prospects and quality of life. In fact, the digital age transformed that country's agrarian economy into a fast-growing technology-based economy. America's New England states, too, faced the loss of millions of textile jobs in the 1950s, when that industry moved south to be closer to the source of cotton and to take advantage of the South's lower wage rates. Yet today, residents of the affected New England towns live much better than did the generation before them—as does the country as a whole. Dynamic economies adjust in a capitalistic environment.

Although globalization has slowed job growth rates in some countries, we must examine those numbers in the context of the overall employment situation. In the U.S., for instance, the current workforce participation rate—the percentage of adults who classify themselves as available to work—is 66 percent, up from 61.2 percent in the period from 1960 to 1985. In that time period, economists considered a 6 percent unemployment rate normal. In fact, from 1960 to 1985 the unemployment rate averaged 6.1 percent. Today, the unemployment rate in the U.S. is only 4.9 percent.

In other words, the U.S. employment-population ratio is at an all-time high of 62.8 percent, up from 57.5 percent, a rate that was considered “normal” for decades. All this has happened despite—or perhaps because of—increasing globalization. In fact, virtually every developed country in the world has enjoyed increased job creation over the past decade.

Such statistics can be persuasive. After all, reasonable people around the world want to see the human condition improved. We all wish that those facing dire circumstances could enjoy better health care, reduced infant mortality, greater life expectancy, cleaner environments, better working conditions, decreased unemployment, better educational opportunities, and better access to goods and services that



would improve their quality of life. The engine that drives these benefits is *business*.

Business as Benefactor

Outsourcing, technology, globalization. Too many view these forces as negative; in reality, these forces have had a decidedly positive impact on the world's nations. Ultimately, they serve as strong forces for peace. Countries and individuals alike would rather not injure their suppliers or their customers, and business interdependency has a strong stabilizing effect on the relations

between nations. From my perspective, continuing improvements in the human condition depend directly, if not exclusively, on effective business leaders.

Author and clinical psychologist Nathaniel Branden has made this point: “We do not hear the term ‘compassionate’ applied to business executives or entrepreneurs. ... Yet, in terms of results in the measurable form of jobs created, lives enriched, communities built, living standards raised, and poverty healed, a handful of capitalists has done infinitely more for mankind than all the self-serving politicians, academics, social workers, and religionists who march under the banner of ‘compassion.’”

In other words, business leaders, when they compete effectively, ethically, and lawfully—as most of them do—are performing a vital societal service. There is much to be said in defense of well-run businesses and the free market systems in which they thrive, but students must understand that business can function well over the long term only if supported by a social environment that is committed to basic education for its youth. Education, invention, and innovation are the sustaining lifeblood of any vibrant economy.

To help instill that understanding, business schools can introduce more courses in economic history, business law and ethics, and global corporate strategies; but more needs to be done. We must develop outspoken business school leaders who can provide the proper context for business's impact on students—and the world.

We have not chosen to become business educators to produce more Gordon Gekkos, more Parmalats, more Enrons. We must set about the noble work of training the next generation of builders and leaders. Without them, the human condition will surely stagnate, no matter how ardently social champions may try to make it thrive. ▣

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