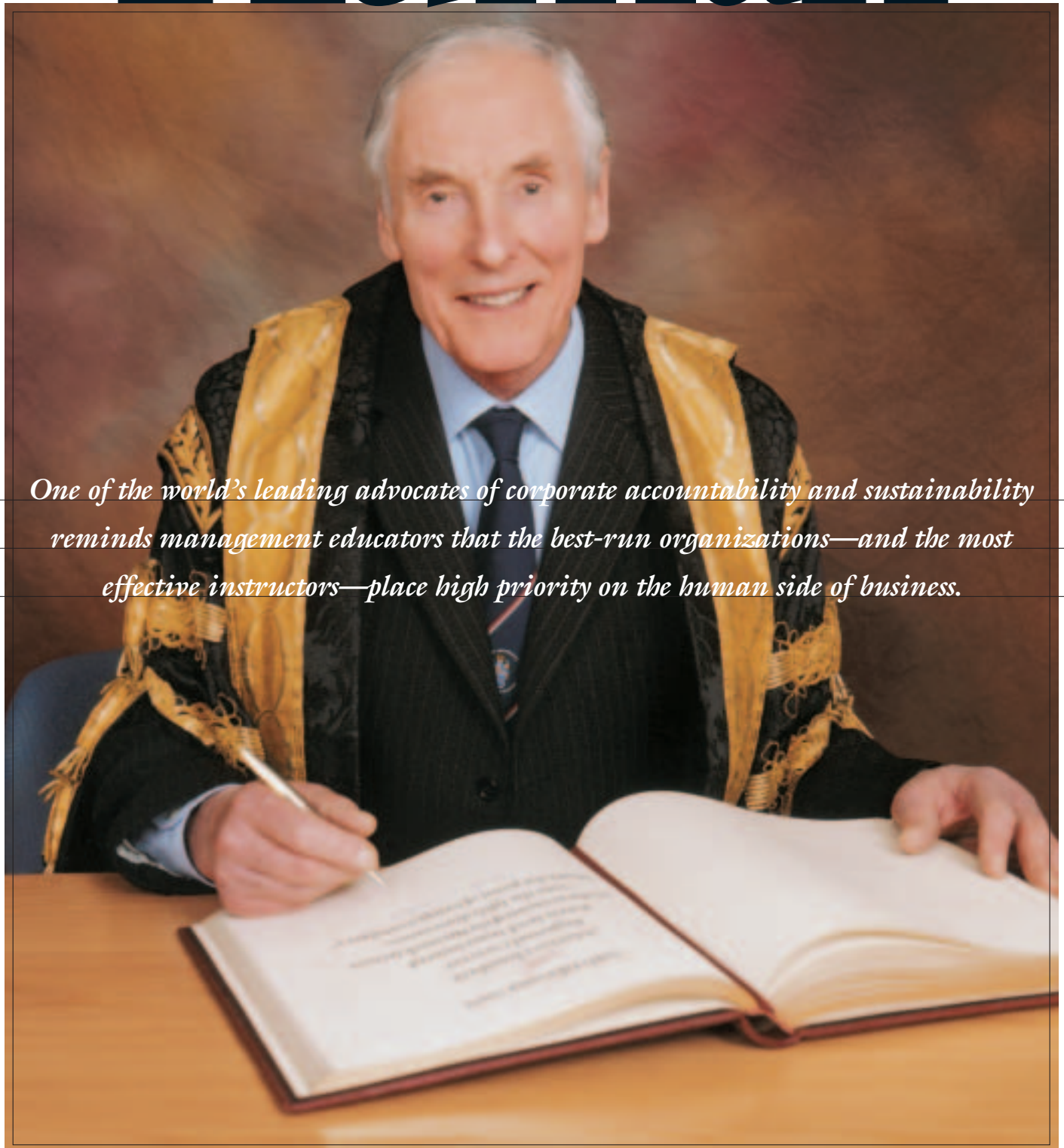


The Human Side

One of the world's leading advocates of corporate accountability and sustainability reminds management educators that the best-run organizations—and the most effective instructors—place high priority on the human side of business.



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of Business

Sir Adrian Cadbury has never opted for the glitzy notoriety that ensnares many of today's high-profile business personalities, but his celebrity and achievements in the business world are indisputable. For 24 years he was chairman of Cadbury Schweppes PLC, the world's third-largest soft drinks company and the fourth-largest supplier of confectionery. He retired in 1989 and is now Chancellor at Aston University in Birmingham, England.

One of Cadbury's most important enduring commercial contributions may lie in his steadfast efforts to improve the way businesses are directed and controlled. Through his pioneering work on the Cadbury Code, the first in-depth statement on corporate governance and a model for sound practice worldwide, Cadbury has helped to spark reforms around the globe.

Numerous financial markets have established their own codes of best practice based on the Cadbury Code's 1992 recommendations. Cadbury also helped the Organisation for Economic Co-Operation and Development forge its own governance principles while he was a member of OECD's Corporate Sector Advisory Group on Corporate Governance.

While highly publicized financial scandals like those at Enron and WorldCom have made even the most uninformed layperson aware of the dangers of lax governance, they also have occasioned discussions about the practices that sustain an organization. Cadbury spoke to *BizEd* about the current state of corporate governance and the role management educators can play.

You've traveled to more than 27 countries to discuss and promote sound governance. How is corporate governance evolving globally?

We're beginning to see some real convergence of governance practice—not necessarily structure, which involves issues such as whether you have a one- or two-tier board—but of practice, meaning the actual processes and standards of governance.

Two main forces are bringing about convergence. On the one hand, we have the big institutional investors like CalPERS and TIAA-CREF. These groups have their own principles and their own governance codes, and they provide those to the companies in which they invest. If an organization wants investment by the biggest institutions, then it needs to come in line on governance standards.

The second force is the capital markets of the world. If a business wants to borrow money at the best possible rate, it must meet the disciplines that the capital market imposes on financial reporting, on financial controls, and so on. So I think convergence is happening, and I think it is being brought about by those two forces, investors and capital markets.

Are management students being educated in corporate governance principles?

Yes, I think they are, although I think governance education primarily comes in at the MBA level. Certainly that's the case here in the United Kingdom.

What is the role of business schools in ensuring that students learn how organizations appropriately govern themselves?

I think the important part is not to get bogged down with the details of corporate governance. It's really the basic issues that one needs to get across.

For example, I would expect students at both the undergraduate and MBA levels to be getting their minds around two concepts. The first involves the relationship between the governing body of an institution and its executive management. Any college, school, or church students have attended, as well as any not-for-profit organizations they may have encountered, have all had some kind of governance body responsible for directing the organization, as well as a management group that actually carried out operations. Rather than discussing how boards of directors should be made up, what checks and balances there should be, and other such details, business schools should help students understand the difference between the basic organizational roles of directing and managing.

I would also emphasize the concept of accountability. Knowing to whom organizations are accountable and why accountability is important seem to me to be absolutely fundamental governance issues.

What about teaching students the appropriate way to manage so that corporate governance is ensured? For example, Enron whistleblower Sherron Watkins testified that the culture at her company "led good people astray." What is the responsibility of educators to teach students to manage in a way that helps people do the right things?

If we're not careful, we in management education can fall into a trap by teaching things in compartments. Saying in essence, "This is a finance problem, while this is a marketing problem." Sort of putting everything in a nice, tidy little box and looking at it as a separate function of the business.

The point is that the human side of a business cuts right across all those separate functions. Of course, we need to teach the basic functions of marketing and finance and production and so on; but we must also be sure to cover the human element of each of those. The questions about how

by **Christy Chapman**



people behave, and how, in fact, you get the best out of people—those issues absolutely cut across all of those functional compartments.

Teaching students that they mustn't see problems as confined to one tidy box, that there are usually other angles to them, is a principle that management educators can get across.

How does one teach such a principle?

For example, one shouldn't just offer business ethics as a separate option—saying in essence, “Okay, here we are going to study ethics, on its own, and it's different.” In my view, almost every decision we make in business has some ethical aspect, and we really should be signaling that point. We should state, for instance, “No, the issue is not just a financial problem. There is also a question about ethical conduct.” The disasters that have recently occurred are good examples of this.

What one is trying to do in an educational establishment is not to preach to people, but simply to encourage them to tease out the ethical issues. When doing a case study, for example, management educators can teach their students to look at all of the issues that must be resolved. If I have to close a factory, who is going to be affected by that? Now, it doesn't mean I can't do it; it just means I've got to think about the implications for everyone concerned.

I also think the ethos of the educational establishment plays a large role in whether or not students learn to manage the human element of business. We are influenced by our own experiences, by the way we felt when we were “managed.” Were we given a chance to express ourselves? Were we given a certain degree of responsibility? How did those in authority behave toward us? There is really a good deal that management educators can do simply by example.

A large component of effective governance is managing risk. Isn't it true that possessing a risk-based mindset is becoming increasingly important to succeeding in business?

Yes. Interestingly, I was at the Cambridge business school recently, and they were actually running a risk management course. It was clearly for practitioners, but it was interesting that they were offering the course, because it raises a number of issues that are quite relevant to what we're discussing.

First of all, the course was jointly developed by Cambridge University and Carnegie Mellon University, an example of business schools getting together to provide management education. I think such partnering exercises are excellent.

The course itself, as I said, was really for practitioners. The lecturers from Carnegie Mellon and Cambridge were able to

discuss their theories and approaches with people who were actually dealing with these problems in the field. I think that such courses are great exercises, because we're getting the research ideas out of the educational establishment into the outside world, and the outside world is feeding the problems and issues back into education.

How can management educators effectively teach their students to be more risk-focused or aware when they leave the business school?

I'm really not sure how far one can go in teaching this sort of thing at an early level. How you deal with risk, for example, seems to me to be a more advanced concept. It's outside the domain of institutional education. Instead, such learning occurs when one is actually in the job.

That said, I think your point about understanding the nature of risk is right. In management education, we should be trying to impart an understanding of the principles that lie behind these issues. Therefore, students leaving the university should understand the nature of the different types of risk—the risk to reputation, the marketing risks, brand risks, physical risks, political risks, and so on.

Something else we can get across at an early stage is the notion that risk is not just about disaster. Risk is also about taking advantage of opportunities. In other words, the other side of risk is that if you're too cautious and too controlled, you'll miss all kinds of chances. And so when one actually gets into a job, what the individual has to do is strike the right balance.

And avoid over-control?

Yes. In my view, there is a real danger when you try to do everything through control. When a rogue trader causes a disaster, the knee-jerk reaction, certainly here in the U.K., is to tighten up the control screw, because the controls must have been insufficient.

Of course you must have a proper system of control, but at least as important is how you choose the people you put into these positions. So again, we're back to the human side—the selection of people, the training of people, the mentoring of people. Workers need somebody they can talk to, such as a superior who keeps in touch with them and in whom they can actually confide. That is as important as the control side.

What's more, we're now living in a global world, and you simply can't control everything. You're going to have more and more operations taking place in faraway countries, and your best form of risk avoidance will be trust in the people you put into those positions.

What I believe U.S. business schools do better than we do in Europe is demonstrated by the fact that a fairly high proportion of American students actually go out and start businesses on their own. We are far too ready in this country to work for somebody else.

We regularly read about examples of financial fraud. What can management educators do to help reduce this epidemic?

There are a series of points. Obviously, one of them deals with accounting and auditing standards and principles. For example, in the Enron case, the off-balance-sheet stuff is not allowed under U.K. accounting rules. So part of the approach is to say that what we really want in a global world is one accepted set of accounting standards worldwide. It will be difficult to get to, but the aim in Europe is that by the year 2005 we will have agreement across the continent on international financial accounting standards. Then clearly it's a question of how we link that up with the American GAAP standards.

So there is the goal of getting the structure right for both accounting and auditing. And clearly at the moment that is not tight enough. There seem to be lessons that we can learn, which are not really business school lessons. They're actually practical, professional lessons.

In terms of what one teaches at college, I don't think one can try to do everything. Frauds are terrible, but one must be realistic about them. They're going to happen from time to time, and so you do the best you can to keep them from occurring. But you really can't become obsessed by the fact that every now and again things go horribly wrong.

I suppose that what we as educators try to do is, in a sense, impart an understanding, again, of principles—of accounting principles, of procedures, and of the sort of things that one perhaps ought to keep an eye on. For example, disclosure—transparency of the way in which the business is being run—is a very important governance check, in the sense that you hope to see when things are going wrong early enough to be able to do something about them. That's a much better approach than believing that you can somehow teach everybody about all the frauds that might occur and the proper way to stop them.

The final point, though, really does come back to people. You've got to have a sensible mixture of controls and reporting, and you have to use care during your selection of people.

Should there be a global accounting curriculum for business schools?

I think we must first have international accounting standards. The importance of trying to get standards worldwide is that if we were able to accurately balance an investment in Russia against one in the United States and one in Indonesia, it would be a great safeguard to investors and help in the global movement of funds. But it seems that this is a problem for the accountancy profession. The educators should do what they can, but it's the profession that's got to sort itself out.

From an educational point of view, the important thing is to understand that we now live in one world. We're probably going to see fewer mega-businesses that control everything themselves. Instead, we'll see many more joint ventures, partnerships, and other types of business links and alliances across the world. Therefore, a basic understanding of the kinds of fundamental differences in economies, in cultures, and in the social approaches of various countries is part of the necessary foundation of management education today.

What do you see as the strengths and weaknesses of management education?

I think the strengths are in teaching management principles. And that's not easy, because you've got to extract the principles from the practice.

And although it can be an Achilles' heel if we're not careful, the teaching of business in functional compartments is also a real strength. By that, I mean that it's done very well, and that students leave our institutions with a clear idea of the different functions of a business.

What I believe U.S. business schools do better than we do in Europe is demonstrated by the fact that a fairly high proportion of American students actually go out and start businesses on their own. We are far too ready in this country to work for somebody else. Entrepreneurship obviously is somewhat in the nature of Americans, part of the basic culture in the United States. But I also think U.S. business schools must be doing something that we are not doing over here to encourage creativity, entrepreneurship, and a willingness to take risks. That's a bit tough to teach, and I don't know how you do it; but I think it's something we're lacking.

What qualities make a great business school great?

I don't have a really snappy answer for that. There's clearly a kind of virtuous circle, whereby as the school gains a reputation it attracts good staff, good students, and so on. But how does that happen in the first place?

I've been interested in watching which schools have moved up the scale in the U.K. I would say that the difference has been the people who teach at these schools and who lead them. It really isn't a question of location. For example, Warwick Business School has been extraordinarily successful. Warwick is a small town just outside Coventry. The school was formed in about 1960, so it doesn't have a long tradition, and it's not in the middle of things like the London Business School or Cambridge or Oxford. But it's got good people, and gradually that has built its reputation.

For schools to secure a degree of public funding in this

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country, universities are rated by outside inspectors, who assess research activities and the quality of the teaching. Getting a top rating from an external evaluator gives everyone in the school great confidence that the outside world rates them highly. That, in turn, gives the school something to build on to get people who are interested in doing research and in teaching to come to the school. To come back to your question, it all turns on the people.

If that's the case, then what makes a great instructor?

That's a good question. What we are aiming to do as educators is to encourage people to learn. Educating sounds a little bit like sending shirts to the laundry. You know, you go get educated, and you come back shiny, tidy, and clean.

But what we really want are people whose minds are going to be questioning and who are going to be learning all the time. What we're trying to do is teach our students to learn, rather than just teaching them facts that they can regurgitate. It's a question of developing their minds. The best educators are people who encourage their pupils to think for themselves and to make the most of their own talents.

What are the three greatest lessons that today's business schools should be teaching tomorrow's executives?

I'm leaving aside the kind of functional things, like teaching people mathematical approaches and so on, which are obviously important. But I'm thinking in terms of after you find yourself in the job. You've perhaps majored in marketing, and you've got a good idea of how marketing works. But, on top of that, what are the kinds of issues you need to understand?

I've always liked the idea of not taking things for granted, of the questioning mind, if you like. I would like to think that it is something that we can get across to our students.

I think the point that I made earlier about encouraging creativity and a willingness to start up something for yourself—a willingness, in that sense, to take risks—is also important. That's something else that we can teach, up to a point.

And then, we do come back to people. Anybody doing anything in business is going to have to work with and through people. An understanding of how groups work, of how you can get the best out of people, and so on, is absolutely crucial.

What are the most significant changes that you foresee in management education over the next decade?

I believe we'll continue to see far more mature students. People are increasingly coming back in their 30s, 40s, and 50s to spend time at the university. I think we'll no longer see life

divided into the three chunks of education/work/retirement.

In the past, students who completed the period of university study received a qualification that was expected to last the whole of their working lives; then they would move on to retirement. However, with the way things move so fast today, we can no longer expect doctors, for example, to qualify at 25 or 26 and then to remain untouched by education of any kind until they are 70. We'll need to have courses that will update individuals working in all kinds of professions and businesses because of the changing world. That is one group of mature students that we haven't really dealt with in the past.

But the more fundamental issue is that there will be people who take a break from work—either by working part-time or by taking a sort of sabbatical—and complete a course in something they know nothing about. Then they'll think about whether they want to go back to what they were doing or move in a fresh direction. This, to me, is a different form of student, because somebody who comes and studies a subject in mid-career has a different outlook than the person who is doing it as an undergraduate. We're going to have to think about how to teach those people and what it is that they want to learn.

A third group is made up of the people who missed out. For whatever reason, they didn't want to go to university or didn't get the chance to go, and they carried on working. Later they decide that they do want to complete a traditional university course. Once again, they're mature students in the sense of having been out in the world, so the nature of the course and the way the students are taught will have to change.

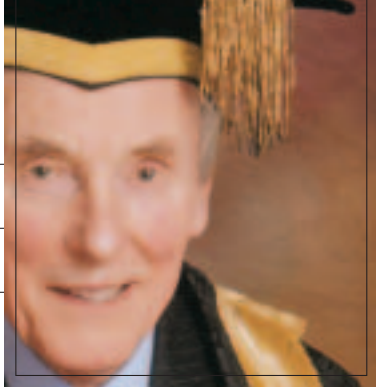
So you see, instead of education defining a specific period in our lives, we'll have a more lifelong approach to education. As a result, we're probably going to have to change our idea of the nature of education. Inevitably one has questions about the nature of the institutions educating these new types of students.

In what way?

Universities and colleges will really have to think about how they can meet the needs of different groups, rather than taking the traditional approach. At least in this country, that traditional approach is geared toward taking people at 19 and providing them with a course of study up until they're in their early 20s.

Another issue is also driving this in the U.K. The British government has announced that its target is for 50 percent of the traditional college-aged population to receive a higher education. As a result, we must have a far wider range of courses and institutions. Not all of the 50 percent will be wanting an academic education.

If you are going to provide higher education for a wider range of abilities and degrees of study, you can't simply repli-



cate Oxford and Cambridge across the country. We'll have to have different kinds of institutions that will run courses that are relevant and appealing to a range of people who until now have not considered going into higher education.

Consequently, our idea of the nature of work and educating for work ought to change, too. These individuals who typically have not been interested in higher education will not only demand a wider spectrum of course offerings, but they may also choose to utilize their skills in ways that have not usually been considered "real" work. We have traditionally viewed paid employment as the only form of work, but that is simply not a true characterization. There is an enormous amount of work that goes on in society for which no one gets paid. A lot of voluntary activities that we don't think of as work are just as valuable to society, and we need to take that into account when we talk about vocational study.

When workers are paid, you have a certain degree of control over their performance. The possibility of losing, or increasing, their pay motivates them to action. But if the people you're working with are volunteers, then you have to use a completely different management approach. Colleges and universities must consider how to educate people for that type of work.

What do you predict for online education?

There's no question at all that it will develop and grow, and it will be important. It already is. At Aston, we have a distance learning MBA. I think the lesson we've learned is that it is not easy to succeed as an isolated individual sitting at the other end of a computer terminal. I really don't believe that learning is a solitary occupation. The great majority of us need the support of other people who are in the same learning situation. Students in online courses don't necessarily have to go to the institution that is issuing the course, but they must be encouraged to meet among themselves. At Aston, for example, if we have a number of people in an area taking a distance learning course, we encourage them to meet as a group in their own way so that they can discuss the issues. They can then return to the computer and feed questions back to those teaching them. Equally important is this chance to communicate with the people who are initiating the course, so that the students are not just out there on their own.

I think, too, that one has to be cautious about reputation. When an institution offers a distance learning course, its reputation is attached to that course. So you have got to be very thorough about how you select students, about how you provide them with the course material, and about the standards that result. This is the kind of world in which, I'm afraid, there will be smart operators who will be offering something that

isn't really of great value and in the end will be seen by the outside world as not being of great value. So the safeguards and guarantees that go with the course are very important.

What characteristics of your own education have proven most valuable to you over the years?


I studied economics at Cambridge, and I remember my early essays were full of ideas and theories. Over the course of study, I really learned how to analyze issues carefully. I learned to think more rigorously about the way economic structures work and not to exclude the human side. Instead of jumping to conclusions, I learned to think through the cause and effect of situations and to consider carefully how each came about.

Have you discovered any significant changes in management students over the years?

One of the things I've noticed is that today's students are far more concerned about the impact of business on society and the environment than was true in my day. There have been concerns in the U.S. over child labor when people outsource their production. Outsourcing is a perfectly sensible thing to do; but what sort of responsibility do organizations have over wage levels, health and safety levels, and working age minimums in these businesses to which they outsource?

When I speak to MBA students, many of the questions I get are about such issues. Students are much more aware of social and environmental concerns and the work that's going on to address them, like the model corporate code of environmental conduct known as the CERES Principles. These issues are real and do engage the attention of students, and that is something that should be encouraged.

There is also a second angle, however. This growing concern about the social responsibility of business means that people increasingly want to work for organizations with good reputations. One of the arguments for companies to take social responsibility seriously is that if they don't, then they won't get the best people to come work for them.

In addition, there is quite a move toward ethical investment funds or socially responsible investing. Many individuals invest for their retirement, and they are concerned about the type of world they're going to be retiring into. Also, the large institutional investors like TIAA-CREF must reflect the views of their subscribers. As a result, more companies are going to have to report not just on their financial results, but also on their environmental and social impact. Those of us who are educating managers must appreciate this point as well. 

Christy Chapman, based in Winter Garden, Florida, is a free-lance writer.