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

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.

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