

## The Business-School Boondoggle

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### THE GOLDEN PASSPORT

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*By Duff McDonald*  
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*By Matthew Stewart* April 21, 2017

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**Anthropologists** in the distant future will make their careers investigating the extraordinary rituals of American business education. As they sift through the wreckage of a civilization that bestowed its highest rewards on individuals trained to ignore its deepest problems, they will be lucky to have as their guidebook Duff McDonald’s deliciously iconoclastic history of the Harvard Business School, “The Golden Passport.”

More than a century ago, Harvard formed its Graduate School of Business in the hope that its faculty would soon figure out how to make management into a discipline and a profession. Apparently, they’re still working on it.

B-school boondoggles; of chaos and quantum physics; what went wrong with Islam; rebirth on the Hebrides; Elizabeth Strout’s latest; Gary Cooper and the Red Scare; baseball’s greatest character; and much more.

They first tried on the “scientific management” of Frederick Winslow Taylor (1856-1915), the “efficiency expert” who wielded his stopwatch against laborers as if it were a cattle prod. After it became embarrassingly clear that Taylor’s work was as scientific as the average séance, Harvard fell for the humanism of “Dr.” Elton Mayo (1880-1949) and senior [AT&T](#) executive Chester Barnard (1886-1961). But the doctor’s “research” was as bogus as his credentials, and the telephone boss proved to be an insufferable paternalist, convinced that he and his fellow managers ruled the world by virtue of their own moral purity.

When America’s corporations floated out of World War II on an ocean of cash, the wise men of Harvard decided that management was all about creating vast, technocratic amoebas that could swallow any business in their path. When Wall Street began to eat those amoebas for lunch, they suddenly realized that management was all about maximizing shareholder value.

Along the way, the Harvard Business School has racked up some remarkable successes, as Mr. McDonald makes clear. The logistical and analytic techniques the school developed during World War II, for example, proved to be of tremendous benefit in ramping up (and ramping down) the war effort. Contrary to Silicon Valley myth, Harvard played a key role in creating the nation’s thriving venture capital sector. But a giant hole remains at the center of the business school project, and it is located precisely where one would expect to find an explanation of the fundamental purpose of an education in business.

Two things may be said of the general theories of business education that populate the promiscuous intellectual history of the Harvard Business School. The first—to state baldly what

Mr. McDonald wisely allows the accumulation of evidence to reveal—is that none of them are to be taken seriously. They all start and end with the belief in a magic measuring stick that will reduce the problems of human collaboration to a game of numbers. The second is that they always, always, justify the power and the glory of management. Did I mention the money?

In the first decade of its existence, Mr. McDonald shows, the Harvard Business School faced an existential dilemma. It could dedicate itself to the pursuit of knowledge. Or it could dedicate itself to the pursuit of corporate donations and consulting contracts. The choice made then set a pattern: Professors lunged for the cash and then, straightening their ties, waxed eloquent about how this was after all the noble thing to do.

The school's second dean, Wallace Donham (1877-1954), explained everything. Upon returning from Wall Street one fine day, his suitcases overflowing with joy, he announced that it was good and right that the school should stay in touch with “everyday life” and offer faculty the “opportunity for . . . personal development.” HBS faculty have been following their bliss ever since, secure in the knowledge that the money will only enhance their ability to carry out their intellectual mission. When the celebrated professor and organization guru Rosabeth Moss Kanter lauded IBM in 2009 for having “achieved the seemingly impossible: high levels of business performance . . . and social good,” for example, she could speak from personal experience. It seems that IBM had been good enough to put her on its payroll as a senior adviser over the preceding decades.

The comedy of dollars reached a climax around the time of peak Harvard, in 1979, when it became apparent that the most powerful man at the school was not a professor or an administrator but Marvin Bower, a 1930 graduate of HBS and head of the consulting firm McKinsey & Co. Bower was meticulous in everything, down to the cuff links he expected his associates to wear, and McKinsey happened to be the single largest consumer of HBS's well-groomed products.

At the time, HBS's fabled “case method” of instruction had come under fire from, among others, Harvard President Derek Bok. The case method, for those who don't know, is a form of open-air literary criticism focusing on third-hand stories written about, and sometimes edited by, the superhuman managers of the same sorts of corporations that help pick up the tab for business schools like HBS. Mr. Bok suspected that it was a pedagogical method masquerading as an intellectual discipline. Others would say that it's mainly a way of teaching young people to speak brilliantly on what they only dimly understand. Now it so happens that the talent for “winging it”—less polite names will come to mind—was exactly what the consultant ordered. So Bower put his perfectly polished wingtip down, and the case method stayed.

The dark void at the core of the business school enterprise became as visible as the moon blotting out the sun during the great transformation that started in the 1980s. In the preceding decades, Harvard had tirelessly preached the gospel that the corporate manager is the moral center of modern civilization. Then, right around the time that “liar's poker” became a thing in the investment banking world, the school suddenly embraced the notion that managers are just a shareholder's idea of roadkill—and that it is positively bad for shareholders to possess anything resembling a moral conscience. If there is a villain painted in a single shade of black in Mr.

McDonald's version of the history, it is Michael Jensen, the economist and HBS professor who supplied the intellectual rationalizations for the leveraged buyout boom, the CEO compensation boondoggle, and the rampant financialization of the economy. In Mr. McDonald's tale, Mr. Jensen shows up "spewing out ridiculous blanket claims such as . . . 'shareholders gain when golden parachutes are adopted.' "

Although the great transformation of the 1980s was a kind of intellectual 180, it was in a deeper sense a new twist on an old turn. HBS was still in the business of producing magic sticks that promised to answer every human need with a handy spreadsheet. In the more recent chapters of the history, the scariest parts are where the faculty take the spreadsheets off campus.

Michael Porter —probably the school's most famous professor and certainly among the richest—made a fortune by converting an economic theory intended to help regulators curb monopolies into a banal framework for encouraging corporations to become, in effect, monopolies. The Monitor Group, the consulting company Mr. Porter co-founded, raked in over \$100 million from AT&T in the early 1990s—just as the old phone company, flailing around in search of new sources of monopolistic advantage, launched a series of strategic acquisitions that landed it in a ditch. Starting in 2006, Monitor put its expertise in the service of a certain terrorist-sponsoring dictator in Libya. As Mr. McDonald relates, Monitor supplied the Libyan government with a report that characterized the country as being at "the dawn of a new era" and a "popular democracy system." Another Harvard professor complained about what he saw as an ethical lapse, but all Harvard's president could muster, according to Mr. McDonald, was a "mealy-mouthed statement." The strategic foray into the tin-pot sector—which included contracts with the Assads in Syria, as well as the Russians and Saudis—did not keep the consulting firm from bankruptcy. Now, according to the author, Mr. Porter seems convinced his management magic will solve the problems of health care and education. Apparently all we need to get our schools and insurance companies back on track is a little "strategy."

Meanwhile, the incumbent HBS Dean Nitin Nohria stalks the pages of Mr. McDonald's narrative like a running gag. In the author's account he dispenses lollipops of ideology-lite ("Business is the greatest force for good in society!"), flits "around the country trying to shake alumni down for money," and tosses word salads of meaningless managementese when confronted with serious questions—like whether the school, having spent much of the past three decades operating as the human resources department of Wall Street, should take some responsibility for the bonfire of the financial system in 2008.

It would be a funnier story if it weren't for the tragic aspects of American capitalism in the 21st century, as Mr. McDonald rightly points out. American business schools, starting with Harvard, have become, in Mr. McDonald's words, "private sector madrassas." As the economic system veers toward destabilizing levels of inequality, he observes, the high priests of Harvard serve up reckless platitudes about the impeccable justice of the marketplace. Their sacred spreadsheets have all the answers and yet nothing to say when powerful business interests, for instance, promote deregulation schemes that privatize profits and socialize losses.

It's no mystery what happens when government falls captive to the industries it is supposed to regulate; the big story here is what happens when education, too, slips on the golden handcuffs

and jumps into bed. HBS's accomplishment is to have shown how easy it is to sell off the branding potential of the modern research university. All you have to do is leave out the parts of an education that might lead students to think critically of the system they are expected to inherit. Then you hand over the keys of the castle to these individuals who have been taught never to look outside the windows, and hope for the best.

This is a bigger, better book than Mr. McDonald's previous efforts—more critically aware than his premature hagiography of Jamie Dimon (“Last Man Standing,” 2009), more ambitious than his able but insider-ish history of McKinsey (“The Firm,” 2013). It appears that we have Harvard itself to thank for the breakthrough: According to the author's note, HBS refused to make a single person available for a single interview. (Mr. Nohria will be rethinking that decision right about now.) Harvard's evident disdain for the search for truth, however, left Mr. McDonald free to step outside the river of self-love that is America's management-ideology complex. Political reporters should take note of the upside of abandoning access journalism: freedom.

Freedom is fun to read. Surveying the malignantly insipid “leadership” literature, Mr. McDonald at last speaks truth to power: “Most of it is bulls—.” As for the executive-compensation racket—where CEOs, egged on by their business-school cheerleaders, sit on one another's boards and hire consultants to tell themselves how much more they should be paid—that, says our righteous author, is “one of the most intricately designed circle jerks in business history.” Freedom also turns out to be a bit long to read. At nearly 600 pages, it appears to have skipped a trip to the barbershop. Still, the punchy wit and refreshing blasts of pepper spray will keep you awake for the ride.

With a title like “The Golden Passport,” this book may be purchased for the wrong reasons. So let's be clear that it isn't about whether a Harvard MBA is “worth it.” Of course it is—“duh,” as Mr. McDonald would say—assuming that the meaning of “worth” is your personal bank account. It isn't some populist rant against pointy-headed conformists posing as our entrepreneurial saviors. Mr. McDonald surely knows too many good people in the business world to suppose that the issues here have much to do with personal failings or unpleasant stereotypes. It also isn't a facile effort to lay the blame for all of society's ills on the lonely steps of a single campus in Boston. At the end of the day, the American obsession with business education is a symptom, not a cause, of its deepest problems. This is serious history, broad in its sweep and meticulous in the detail.

Which is why it would be a shame if “The Golden Passport” wound up only in the hands of the business-school crowd and even worse if it served merely as an excuse for the sages on the Charles to interview one another about their lapses, appoint yet another professor of ethics, and congratulate themselves once again on their endless capacity for moral improvement. This is really a book for the rest of us, the readers and the thinkers of the world, some of whom undoubtedly have business degrees. Either we figure out why it is we ever imagined that we needed the MBA and its magic sticks, or those future anthropologists, smiling as they shake their heads in distant pity, will do it for us.

—*Mr. Stewart is the author of, among other books, “The Management Myth.”*  
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