

The big MBA-Finance debate: Where manufacturers could go wrong

Is one of the root causes of the current mismanagement we see in the today's business markets, due to an over-preferential treatment manufacturers have chosen to give to the financial aspect of their businesses? *Panels & Furniture Asia* presents two viewpoints in this inaugural column, *The Business Mind*.

The MBA-Finance disease

by DR JOSEPH SUN J CHANG

There is an ongoing disease in major corporations in the US that in my opinion, is destroying its manufacturing industry. Asian manufacturers would be well advised to avoid making the same mistake.

For at least a generation, major American corporations – their senior managers and board of directors – have been infected by what I term as an “MBA-Finance” disease. Over the years, they hired newly minted MBA holders with a specialisation in Finance, assigned them to positions with authority but little accountability, window-dressed them through a series of promotions, and then appointed them to leadership positions.

Along the way most of them hardly learned anything real about the industry in which they worked. Instead of using their considerable talents to solve real problems in production and sales aspects of the company, these MBA-Finance types were busy using all the tricks they learned in their business schools to come up with quick fixes that dressed up the balance sheet, while the core business of the company rotted away. Some 30 years later, the end results could not have been more disastrous.

There is no better poster boy for this disease than Rick Wagoner of General Motors (GM), a hire from Harvard Business School by Roger Smith, another MBA-Finance type. Mr Wagoner went through a series of assignments, mostly in accounting and finance, but was not seriously tested for his ability in the business of making cars and selling cars.

Before his promotion to become the CEO, Mr Wagoner was the Chief Financial Officer (CFO). Upon becoming the CEO, one of the first actions taken by him was to restate the financial results just prepared under his watch as the CFO. Instead of firing Mr Wagoner for his mistake, the Board of Directors

and the accountability system at GM rewarded him by allowing him to continue being the CEO!

Manufacturing companies are in the business of producing something and selling that product. Finance plays an important supporting role in the production and sales process. It, however, should never usurp the principal roles of production and sales. Many major manufacturing corporations in the US have the illusion that through their financial gimmickries the quick fixes that the MBA-Finance types offer would make their companies competitive. Instead of trying to fix their real problems in production and sales at the core of the company, they focus their efforts on “creative accounting” to dress up the financial results.

As stated earlier, the end results could not have been more disastrous.

GM, once a corporate icon in not just the US but the world over, has now been reduced to nothing more than a corporate carpet beggar. Given the American dominance in MBA education, the MBA-finance disease is definitely the one to avoid.

Panels & Furniture Asia readers, your companies are in the business of producing something and selling that something. Therefore, focus on production and sales, keep their supremacy, and put finance where it belongs, as an important supporting cast.

Just in case I did not get my message across loud and clear, here's an analogy: a company is like an army. If an army has been promoting the Finance type as the chief of staff for over 30 years, can that army fight and win? Now that I have said what not to do, in my next article in this magazine, I will explain what the companies *should* do.

The MBA-Finance Disease: Another Viewpoint

by ALISTAIR BRYSON



It was interesting to read the article by Professor Sun and while I am in complete agreement with it, I still feel that his attack has chosen a subsidiary, rather than primary, target. This article will hopefully focus on the primary target and re-enforce the argument of Professor Sun.

But first I must clear up a couple of points.

The MBA degree continues to be sceptically viewed in many Anglo-Saxon countries; indeed the world's foremost economic historian, A.E. Hobsbawm is on record as doubting whether management as a "science" should be part of any universities' curriculum at all.

If Hobsbawm has this belief, then Professor Sun is in good company.

Writing as I am from central Europe, I can perhaps somewhat allay Professor Sun's fears by assuring him that continental universities have not been deeply affected by the MBA syndrome; the degree Dipl. Ing., (degree'd engineer) at least in the German-speaking countries, continues to be much higher prized than any MBA.

Management as a "science" is subject to a great deal of fashion and it is questionable whether universities should engage in the fashions of the world rather than the pursuit of knowledge which is, or should be, the *raison d'être* of the academic world.

On the other hand, universities must be funded and the foundation of many business schools has proven to provide a lucrative source of funds to the various institutions indulging in these.

It is this factor alone that has generated an almost self-fulfilling belief in the worth of an academically-approved managerial qualification.

Be that as it may, it also remains the case that most of the academic staff conducting such MBA courses have themselves never enjoyed the luxury of managing even a sweets-stall – or, in Singapore terms, a 7-11 convenience store. They have made their way from schoolroom to lecturer in the

academic world without sniffing the light of day in between. This in itself should make one wary of accepting the general qualification MBA as conferring any degree of competence in the managerial function except, of course, that most basic requirement: literacy.

Also, in Europe, it is often part of senior management's views that candidates holding the MBA degree have gained this because they could find no better way – that is, results by experience – of climbing the managerial ladder. And so it has proven to be sometimes, as Professor Sun's examples illustrate.

Now to the MBA-Finance syndrome which particularly arouses such scorn in Professor Sun: This must be off-beam for the simple fact that, like computer sciences, the required competence is NOT to be found in the academic world.

Academic staff of these faculties – finance, computer-sciences – tend to run after, not generate, the new families of technology and financial models arising in the market.

As far as finance is concerned, the genuine threat to balance-sheets is to be found in the relatively newly created

(since the late-1980's) investment banking function – and I can assure Professor Sun that the competence of the actors on this stage is much greater than that to be found on any MBA Finance curriculum; a competence which, however, is ambivalent in its effects.

Anyone who is aware of the roadshows mounted by the major banks and finance houses to the unsuspecting senior management of today's corporations must be taken aback at the widespread belief that *money can be had for nothing* – as propagated by such shows.

How successful such thinking can be is sadly illustrated by the recent results of the Porsche Motor company who recently announced a vastly higher return from financial moves than from their core business, manufacturing automobiles.

It is such thinking, rather than MBA competence, that ex-

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plains the actions of Mr Rick Wagoner of GM. He is involved in an environment that has *demand*ed his actions on the financial front – and, until recently, the world has applauded these moves and punished senior management who has ignored them.

I am fully in agreement with Professor Sun's conclusions.

Luckily, I live in a country, Germany, which, due to a predominant culture of middle-size, family-run concerns, continues to display the virtues he advocates. However I find myself in disagreement with his conclusions on the source which waylays such virtues.

In my long career in publishing, I have been fortunately privileged to observe the workings of many such family-run companies at close hand and have been continually deeply impressed by the responsibility shown by these companies to their product(s), their clients, their employees and the general environment.

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Views expressed in this article are the authors' only and do not necessarily reflect the views of Panels & Furniture Asia. All comments on the current financial situation or on the above viewpoints are welcome and can be e-mailed to irenaj@pabloasia.com.

