

Dysfunctional Management Education and Damaged Capitalism in America

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Dysfunctional business and political leaders cause the social, political and economic malaise afflicting America. Their actions have been shaped by flawed studies of business, economics, and law. During the last thirty years, ideological economics theories of market fundamentalism have dominated business education. As a result, invalid theories of management and business-government relations have produced dysfunctional corporations and governments. President George W. Bush epitomizes such dysfunctional aspects of America's MBA education. It produces MBA mindset that embraces the robber baron culture and Social Darwinism of market and Christian fundamentalism. The remedies are found in the alternative management theories and leadership training of the Civil Communication Section (CCS) seminars offered for Japanese executives after World War .

Keywords: Dysfunctional MBAs; jobless economic recovery; declining global competitiveness; invalid efficient market hypothesis; market fundamentalism; misunderstood Adam Smith; Social Darwinism; Model J corporations; business professionals' noblesse oblige.

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Dysfunctional MBAs and Jobless Economic Recovery of America

Thirty-one years ago, George W. Bush was my student at Harvard Business School. In my class, he called President Franklin D. Roosevelt a “socialist,” and opposed Social Security and the Securities and Exchange Commission (SEC), unemployment insurance, and other New Deal innovations, because he thought they were “bad for business.” In reality, the New Deal innovations and the federal government’s positive role in managing the economy bailed the U.S. out of the Great Depression, won World War II, produced the Golden Age of the post-World War II era, and repaired American democracy and capitalism.

In those days, however, Bush belonged to a minority of MBA students who were seriously disconnected from accepting the moral and social responsibility for their actions. Today, he would fit in comfortably with an overwhelming majority of business students and teachers. President George W. Bush epitomizes the dysfunctional aspects of MBA mindset – anti-intellectualism, flawed integrity, greed, and lack of compassion for the unfortunate. At present, to privatize Social Security – his dream since his MBA days – President Bush is falsely claiming that Social Security is insolvent and inefficient.

In July 2005, To the SEC chairman, President Bush appointed Christopher Cox (Harvard MBA and Republican Congressman). Thirty-one years ago, I also had him in my MBA class of economic policies and international business. He shared George Bush’s desire to eviscerate SEC’s regulatory power over private business and Wall Street. In Washington, President Bush and Congressman Cox have worked together to undermine SEC’s regulatory power, giving rise to Enron and other scandals of Wall Street and Corporate America. As the SEC chairman, Cox will be subverting the governance rules of Corporate America that the Sarbanes-Oxley Act has tightened after Enron and other corporate malfeasances. Cox will be following President Bush’s “governance by duplicity and subversion.”

President Bush has modeled his presidency on the Gilded Age of the McKinley Presidency of 1897–1901 (Bill Moyers, 2003: 10). President McKinley saw to it that Washington was ruled by big business. Corrupt crony capitalism and rampant Wall Street’s money games finally brought about the Great Depression. Under the Bush Administration, Wall Street’s money games are dominating the economy, and the jobless economic recovery is hurting the global competitiveness of the U.S. economy. As it was during the McKinley-Gilded Age, America is beset by a widening income gap between the haves and have-nots and by mounting foreign debts and is rapidly resembling a divisive, undemocratic Latin American country.

During the economic recovery of March 1991 to April 1993, a 10 percent increase in the real GDP expanded manufacturing jobs and service jobs 3 percent and 5.9 percent respectively. Ten years later, under the Bush Administration, the economic recovery from November 2001 through August 2003 showed that a 10 percent increase in the real GDP expanded manufacturing and service jobs only 0.7 percent and 0.9 percent respectively. Since 2001, over 5 million people have lost their health benefits while about 3 million quality manufacturing jobs disappeared. The loss in manufacturing jobs causes compounding losses in suppliers and related quality service jobs. Since August 2003, President Bush’s economic policies have not created 300,000 jobs monthly barely enough to absorb those who were thrown out of work under him and to keep up with population growth. America is burdened by four colossal debts—federal budget deficits, foreign debts, trade deficits, and household debts, which are dragging the national economy.

Meanwhile, encouraged by President Bush’s large tax cuts to big business and the wealthy, many chief executive officers (CEOs) of corporate America give themselves large bonuses and salaries that have little to do with their performance (Nicholas Kristof, 2005: A 21). In 1980, the CEOs of Fortune 500 large corporations received, on average, 70 times larger annual compensations than their average employees. Under the Bush Administration, comparable CEOs, many of whom had business

education, have given themselves 600 to 1,000 times larger annual compensations than their ordinary employees whose incomes have stagnated. To pay for such self-dealt compensations, CEOs lay off their workers, cut ordinary employees' health benefits, raid employees' pension funds, destroy their labor unions, and outsource jobs abroad. During the deep Reagan recession of 1981–83, the CEOs of American large corporations doubled their compensations and perks. Meanwhile, their firms' profits fell and the national unemployment passed the 12 percent mark, the highest since the Great Depression. As they do today, the CEOs of Japanese competitors kept their compensations no more than 30 times larger than the rank-and-file.

In addition to President Bush, business education has also produced former Enron CEO Jeff Skilling (Harvard MBA) and other MBA masterminds behind stock frauds and other serious malfeasances at Tyco, HealthSouth, Haliburton, AIG, Citicorp, Arthur Andersen, WorldCom, and GlobalCrossing, to mention a few. The Bush Administration has condoned the lack of action by the Securities and Exchange Commission and other watch-dogs winking at dysfunctional CEOs.

Dysfunctional Management and Economics Theories of Market Fundamentalism

The MBA culture of selfishness and greed is encouraged by dysfunctional management and economics theories of market fundamentalism. Sumantra Ghosahl, a leading management scholar, noted (2005: 75–91): “Combine agency theory with transaction costs economics, add in standard versions of game theory and negotiation analysis, and the picture of the manager that emerges is one that is now very familiar in practice: the ruthlessly hard-driving, strictly top-down, command-and-control focused, shareholder-value obsessed, win-at-any-cost business leader of which Scott Paper's “Chainsaw” Al Dunlap and Tyco's Dennis Kozlowski are only the most extreme examples. This is what Isaiah Berlin implied when he wrote about absurdities in theory leading to dehumanization of practice.”

For the last thirty years, American business and economics studies have increasingly become the pseudo-sciences of financial economists' mathematical formula manipulation which is devoid of humanity. These market fundamentalists build their theories and policy paradigms on their illusionary assumptions about market efficiency, individuals, firms, governments, and society. Individuals are assumed to maximize their economic self-interest. Corporations are told to maximize short-term profits and stock prices at all costs to reward abstract stockholders. Laissez-faire capitalism is assumed to need no ethical and democratic constraints. It is assumed that Wall Street stock markets properly measure the fair market value of the listed corporations and prevent selfish excesses of CEOs and board members. Financial institutions are assumed to prevent corporate executives' raiding their corporate treasuries. It is assumed that government institution cannot administer effectively any public service from Social Security and health care insurances to airport security. Even cursory observations of the real world would tell us that the assumptions of market fundamentalists do not hold true.

Market fundamentalists ignore that Adam Smith's market efficiency requires the democratic context of fair and honest competition (no monopoly and business-government collusion). They ignore that there are many important failures and limits of the market mechanism (Kelvin Lancaster and Richard Lipsey, 1956: 11–32; Francis Bator, 1958: 351–379). When there are multiple and systemic distortions in the price and demand/supply discipline of a given market, a piecemeal removal of distortions to bring the market closer to a pure market will worsen the overall outcome. This dictum refutes market fundamentalists who advocate substituting “market incentive vouchers” or “privatization” for government regulations of clean water and air, public safety, public education, energy supply, and racial-gender discrimination.

Market fundamentalists assert the futility of government intervention in the market mechanism. They incorrectly extrapolate the social choice theory of Kenneth Arrow (1951), a Nobel Prize winner, who warned us not to twist his mathematical proof of the “impossibility

theorem” into the imagined futility of civic and democratic efforts at social betterment or into manipulating consumer behavior. Arrow merely showed that the equilibrium outcome of the group choice is indeterminate when there is a circular conflict situation like the kids’ game of rock-paper-scissors among different groups of people. It is the democratic political processes of coalition forming and public education that break the log-jam of conflicting interests among different groups of people to attain civic goals. We have only to review how the Civil Rights Movement made many corporations, civic groups, and individuals change their attitude toward the race and gender discrimination in America. Similarly, market fundamentalists have twisted the game theory of von Neumann and Oskar Morgenstern into collusion and deception games of business negotiations that unethical CEOs abuse.

Milton Friedman is a guru of market fundamentalism, although he admitted that his theories are not based on reality (Milton Friedman, 1953). This is an illusion-based pseudo-science according to Friedrich von Hayek (1989: 3–7), Friedman’s colleague and a recipient of Nobel Prize in Economics Science. Undaunted by such criticism, Friedman promoted the “survival of the fittest” ideology of crude Social Darwinism. Friedman’s teachings were embraced by the “Me-first” generations of the 1970’s and 1980’s.

Such Social Darwinism was very popular with the robber barons of the McKinley-Gilded Age. Notable robber barons of the Gilded Age were Andrew Carnegie and John D. Rockefeller, Jr. They increased their power and wealth by practicing survival-of-the-fittest and slash and burn capitalism. Andrew Carnegie (1889) justified a “might-is-right” kind of market competition because “it is best for the race (ed. undoubtedly his own kind), because it insures the survival of the fittest.” John D. Rockefeller wrote in 1900 (Peter Singer, 1999:70): “The growth of a large business is merely a survival of the fittest. This is not an evil tendency in business. It is merely the working of a law of nature and a law of God.” Carnegie, Rockefeller and other robber barons were using federal and state governments as well as the courts to destroy their competitors

and labor unions. After publishing *The Origins of Species* (1859), Charles Darwin warned that we should not use the biological evolution theory as an ethical justification of the right of the strong to trample on society's weak. In my MBA class, George W. Bush said that they were poor because they were lazy and they don't need government helps.

Today, market fundamentalists have revived the Social Darwinism of the McKinley-Gilded Age. Milton Friedman himself sanctified business executives' hubris of greed supremacy and absolved them of any civic and social responsibilities for their actions. He declared (2002: 133): "Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible." To pass their ideology as economics and business theories, market fundamentalists cite Adam Smith, the laissez-faire economist of the 18th century. However, nowhere in his 900-page book, *The Wealth of Nations* (1776), does Smith even imply that those who harm others in pursuit of personal greed also benefit society. Adam Smith rejects the notion that a corporation exists to make money without ethical constraints. Smith states only once that the business owner "intends only his own gain, and he is in this, as in many other cases, led by an *invisible hand* to promote an end which was not part of his intentions." (*The Wealth of Nations*, Book I, Ch. 9). Smith is merely saying that when *honest* persons produce and sell *honest* products and services for the sake of their own livelihood they contribute to the wealth of the society, even though this was not their motive. Smith did not condone cheating or corruption by princes (government officials and politicians) or merchants.

Today, Adam Smith would castigate government-business collusions, monopolies, corporate executives' excessive self-compensation and stock frauds, unfair taxes and WAL-MART like exploitation of employees and communities (Anthony Bianco and Wendy Zellen, 2003: 100–110). Wal-Mart's founder, Sam Walton, built his firm on the strategy of destroying its competitors and expanding its monopsonistic power (buyer monopoly) at the expenses of its employees, suppliers, and communities. To

implement this strategy, Sam Walton targeted first rural towns in the South and Midwest states that can sustain economically only one large discount retail store. To establish itself as the regional monopoly in such towns, Wal-Mart squeezed out “mom-and-pop” shops (small family-owned retail stores) and existing medium-sized retail chain stores. Many of such retail chains were unionized and providing the wages of \$12 to \$15 per hour plus medical and other benefits. They coexisted with local mom-and-pop shops. Wal-Mart destroyed them by predatory price dumping. To do this, Wal-Mart destroyed labor unions and paid its non-union employees about \$8 per hour and no medical benefits, saddling its communities with employees’ health and other social costs. Most of these employees used to work for the small- to medium-sized stores that Wal-Mart destroyed.

While Sam Walton was alive, Wal-Mart boasted of supporting things made in America. Once he died, however, Wal-Mart abandoned Sam Walton’s America first policies. Exploiting the expanding monopsonistic power, Wal-Mart began to expand nationwide and abroad. American suppliers were increasingly abandoned in favor of cheaper and lower quality imports from China, destroying American manufacturing and services jobs. Wal-Mart’s net economic and social contributions to the community it enters are in the negative. The gains that consumers obtain through lower prices and the taxes paid by Wal-Mart’s are more than offset negatively by net community losses of employment and wage income and tax revenues and by burdensome increases in social costs. But the Bush Administration is preventing the anti-trust Federal Trade Commission (FTC) and the Labor Relations Board from restraining Wal-Mart’s predatory anti-competitive and labor exploitation activities. In Japan, unable to acquire Daiei Stores, Wal-Mart has increased its control over Seiyu Store chains. Wal-Mart’s benefits to Japan are questionable.

Adam Smith’s famous proposition of the division of labor is also often twisted by “transaction cost” economists and organization theorists to dehumanize workplaces. Adam Smith clearly warned that “the man whose whole life is spent in performing a few simple operations generally

become as stupid and ignorant as it is possible for a human creature to become” (*The Wealth of Nations*, Book I, Ch. 9). Here Adam Smith warns us of worker alienation in today’s corporations that embrace the transaction cost theory and market fundamentalism to justify their distrust of employees and customers.

The Oil Crisis of 1973–75 abruptly ended the Golden Age of the post-World War II era. American economic and political systems that had already been damaged by the Vietnam War fiasco could not adapt to the sudden four-fold rise in energy costs. A stubborn stagflation ensued. Many Americans suddenly lost their positive views of government and were lured into the illusionary power of the “efficient market.” Milton Friedman’s economics that had until then been treated merely as a curiosity suddenly came to dominate not only economics and business studies but also studies of law (R. A. Posner, 2003), sociology (J. S. Coleman, 1992: 1–15), political science (Mancur Olson, 1965), and social psychology (J. Thibaut, 1959). In particular, MBA students are taught the mistaken idea that corporate management is a financial game. They are taught to treat ordinary employees as disposable costs and to swallow, as the truth, the ideological assumption that corporations should exist only to reward abstract stockholders.

A case in point is the agency theory (M. Jensen and W. Mckling, 1976: 305–360). It is based on the illusionary assumption of perfectly efficient stock and labor markets and stockholders’ control of their firms. As early as in 1932, Berle and Means conclusively showed that stockholders do not own or control the corporations whose shares they buy and sell in the stock markets (Adolf Berle and Gardiner Means, 1932). Stock markets have become the money-game casinos of extremely shortsighted speculators (Paul Krugman, 2003: 426). Labor cannot move as freely as assumed by the efficient market hypothesis. The agency theory and its theoretical cousin, the capital asset pricing model (CAPM) of stock price determination, have reduced the complex behavior of firms into mechanistic, simple and mathematically presentable models.

At best, CAPM measures the average risk-return trade off trends of an industry group of stocks, but cannot tell what investors really want to know—that is unique risk-return trade offs of a specific stock. Both agency theory and CAPM have been empirically disproved in the real world (Robert Kuttner, 1996: 410). At best, stock markets may measure a firm’s price, but not its long-term value to society. Warren Buffett, a billionaire investor, does not believe in agency theory and CAPM and is successfully picking growth stocks ignored by Wall Street. His three criteria are: management, management, and management of no robber baron CEOs.

The agency theory treats professional managers merely as unethical agents who are hired by shareholders. Wall Street loves the agency theory because it encourages corporations to attempt hostile takeovers of other corporations and CEOs to become obsessed with their stock prices. The agency theory states that agents cannot be trusted to maximize shareholder value and that corporate raiders of the “undervalued” firms increase the fair market values of the acquired firms. In reality, as shown by Hewlett-Packard’s acquisition of Compaq, the stocks of the merged firms have mostly fallen after Wall Street’s speculative feeding subsided. The threats of hostile raiders drive insecure CEOs to pad their stock prices by forgoing investments in research and development (R&D), market development, manufacturing, and human resources, all of which are necessary for the firms’ long-term growth and global competitiveness.

Meanwhile, the agency theory has encouraged CEOs to align their self-compensations with those of their shareholders by making stock options and bonuses a significant portion of their compensation. President Bush has been steadfastly refusing to treat corporate executives’ stock options as taxable compensations in kind. Hence, we have witnessed CEOs’ excessive self-compensations and stock frauds at the expense of their employees, suppliers, customers, communities and even shareholders—namely, the long-term growth of their firm (Thomas Kochan, 2002: 139–141).

Transaction costs economics (O. E. Williamson, 1975) is another misleading theory. This theory encourages managers to monitor and control their subordinates to discourage their “opportunistic behavior” and to treat them as disposable costs. In reality, the 21st century is characterized by the fact that capital, technology, and information—the three vital ingredients of economic and corporate growth—are globally moving through cyberspace at the speed of light. Globally competitive firms have rejected the agency theory and the transaction costs theory. Instead, they have built their adaptive corporate structures by empowering their managers and employees to cooperate with one another for “opportunistic” and “innovative” initiatives.

As shown by Enron and General Electric, the managers’ financial contributions to their firm’s earnings per share are often monthly ranked and the bottom ten percent performers are yanked out of the firm. Fears of job loss, mistakes, initiatives and bosses paralyze corporation. Transaction costs paradigms ignore Adam Smith’s warning about the division of labor and controlled employees: “the man whose whole life is spent in performing a few simple operations generally becomes as stupid and ignorant as it is possible for a human creature to become” (*The Wealth of Nations*, Book . Ch.1).

Michael Porter’s theory of “five forces framework” has influenced management and marketing courses (Michael Porter, 1980). Porter argues that companies must compete not only with their competitors but also with their suppliers, customers, employees, and regulators. Porter’s paradigms of “intrapreneurship” and “Darwinian revolution” internally pit one division or group against the others and play one manager against the other. The resultant turf wars discourage sharing vital information, products, and technology across different business units and functions and even among different individuals of the same business unit and function. Internally divided American firms are being soundly beaten in the U.S. and abroad by their internally cooperative competitors from Japan, South Korea and Europe.

From the 1980's through today, following the dictum of agency, transaction costs and Porter theories, one American company after another slashed and burned ("downsized") their employees and suppliers to cut costs and pad their earnings per share. But downsizing reduced profits, lost customers and suppliers and demoralized the remaining employees. The firms lost valuable human resources vital for maintaining customers and suppliers and for utilizing technological and marketing innovations (*The Wall Street Journal*, "Call It Dumbsizing," May 14, 1996).

In the information age of the 21st century, technology and capital, rather than capital, have become most important capital that can only be utilized, improved, and accumulated by human beings. If you shed or demoralize them, you destroy your technology and information capital. The competitive edge of a firm is determined by its ability to link worldwide product development, manufacturing, supply procurement, R&D and marketing. Such links can only be maintained and refined by mutually supportive and trusting people. Dumbsizing destroy such vital personal networks.

Two Models of Corporation: Model J vs. Model A

General Motors, Ford, and Daimler-Chrysler have continued to decline in their home market. Meanwhile, Toyota, Honda, and Nissan have expanded their market shares and profits in America. For some years, Toyota's annual profits have been larger than the profits of Detroit Big Three combined. General Motors and other profit and stock price maximizers are annually beaten by Toyota and other long-term "value-added maximizers" from Japan (Yoshi Tsurumi and Hiroki Tsurumi, 1985: 29–35). Toyota's share value has persistently outperformed that of General Motors.

Repeatedly in recent years, American executives have watched sheepishly as their Japanese competitors took America's failing plants and unproductive and uncooperative workers and turned them around into rousing successes. In these increasingly common examples of what I call the

“Japanese Paradox,” all the excuses American executives use to explain their failures—the overvalued dollar, high labor costs, restrictive union work rules and government regulations—are irrelevant. The Japanese Paradox appeared first in the 1970’s as Zenith, RCA, General Electric, and Motorola abandoned their manufacturing operations in the U.S. and ceded their color television markets to Sony and other Japanese manufacturers (Hiroki Tsurumi and Yoshi Tsurumi, 1980: 583–597).

In the most celebrated case of the Japanese Paradox in the mid-1980’s, Toyota revived a unionized auto plant in California, MUMMI, that had been virtually abandoned by General Motors as “unworkable.” Toyota pledged that management would cut its own salaries first before rank-and-file employees would be asked to accept temporary concessions during economic downturns. Because of this pledge, the United Automobile Workers allowed Toyota to reduce over 26 rigid job categories from the former GM days to four broad classifications, enabling Toyota to empower the workers and install its famed flexible and quality-first manufacturing system. The UAW workers used to resent their former GM executives asking sacrifices of workers that they had no intention of making themselves. The workers used to respond with absenteeism and shoddy workmanship.

Early in the 1990’s, Kodak saw its market dominance outside Japan increasingly eroded by Japan’s Fujifilm. Kodak charged that Fujifilm was engaged in unfair marketing practices with the help of the Japanese government. In 1997, the World Trade Organization unanimously absolved Fujifilm of the Kodak charges. Fujifilm’s business strategy and corporate structure were found more adaptive to the dynamically changing market and technological environment worldwide (Claudia Deutsch, 1997: D 10; Yoshi Tsurumi and Hiroki Tsurumi, 1999: 813–830).

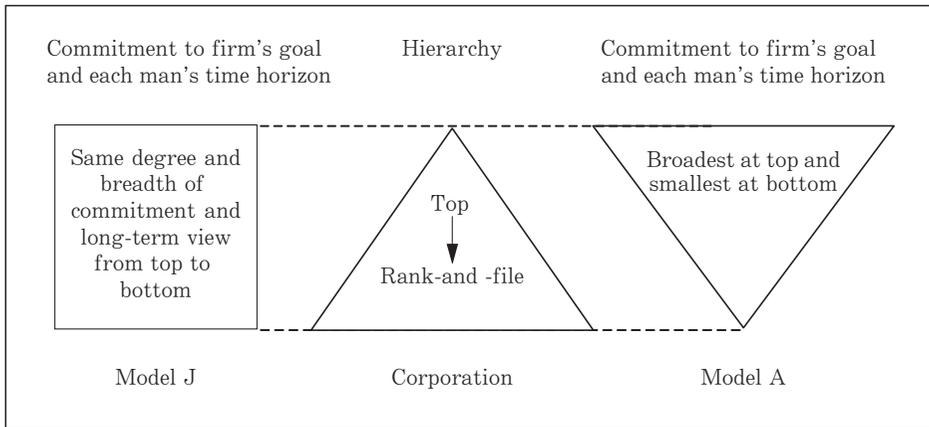
For Toyota, Honda, Sony, Fujifilm and other Japanese firms, their strategic goals are not to maximize their stock prices, but to become the world’s most efficient and innovative provider of whatever products and services they offer. They bring their corporate goals in line with the

national interest of their home and foreign host countries. They refuse to be swayed by the speculative stock traders. They continue to invest in technological innovations, market development, human resources, and in international trade and investment. In the first half of 2005, Toyota reported a visible dip in earnings because it was investing heavily in international market and product developments. The Toyota executives calmly accepted the stock price fall. Once they become the world leader, profit follows (Akio Morita (Sony), 1986: 309; Robert Shook (Honda), 1988: 238; Steven Spear (Toyota), 2004: 78–86). Their private goals are made consistent with their social responsibilities for expanding their host nations' bases of technological innovations, employment and international business.

There are two distinctly different types of corporations (Douglas McGregor, 1960; Abraham Maslow, 1971; Yoshi Tsurumi, 1976: 333). Model A firms are represented by General Motors, Enron, General Electric and many American firms that have adopted the management paradigms of Milton Friedman-led market fundamentalists. Model J firms are epitomized by Toyota, Sony, Honda, Fujifilm and other world class firms like Starbucks and Microsoft. They have developed the corporate structures envisaged by McGregor and Maslow.

Figure 1 graphically compares the internal structures of the Model J and Model A firms. The triangle figure in the middle denotes the ordinary hierarchy of any formal corporate organization, from the CEO down to rank-and-file employees, whether Model J or Model A. However, Model A corporate culture and management control systems are designed in such a way that an inverted triangle depicts the individual's paid commitment to the firm's strategic goal and his paid time horizon for his daily work guide.

Figure 1 Two Models of Corporation



The very top echelon of management in both Models A and J is expected to maintain the broadest and longest commitment to the long-range future of the firm. However, in Model A corporation, as the individual's hierarchical position in the firm declines, his expected commitment to the firm's strategic goal and future tapers off markedly. At the very bottom of Model A firm, the rank-and-file employees are expected to perform pre-designed jobs from one hour to the next. Corporate executives shift the blame for their management mistakes like misreading market trends to the rank-and-file employees who are laid off. In contrast, Model J firms cultivate their corporate culture and concomitant management-employee relations so that even the lowest ranked employees maintain the broadest commitment to their firm's strategic goal and long-term growth.

American executives' obsession with short-term profits and their cavalier treatment of employees weaken their firm's global competitiveness. When a recession befalls GM and other Model A firms, their executives' primary goal is to protect their cherished profit number and their compensation by cutting their employees, R&D, and investment in manufacturing and market developments. During the deep recession of 1974-76 triggered by the Oil Crisis, American semiconductor firms protected their budgeted profits by reducing planned investment in employee

training, R&D, production facilities, and market development. When the recession was over, they suddenly noticed that their Japanese competitors had used the downturn to improve their manufacturing, technological and marketing capabilities and were positioned to overtake them. Similarly, America's once venerable machine tools manufacturing firms lost out to their Japanese competitors.

Their Japanese competitors absorbed the shocks of revenue shortfall, not by cutting employment and supplies, but by reducing dividends, executives' compensation and perks, managers' salaries, and eventually an across-the-board cut in the salaries of the rank-and-file. Recessions are used to retrain surplus people and suppliers so that they will be prepared to produce new products and market them more efficiently once their markets bounce back (*The New York Times*, "Back to School for Honda Workers," March 23, 1993). When Japanese firms need to permanently downsize, they freeze new hiring and downsize through natural employee attrition. When they need to further downsize, they buy out employees with a sizable lump-sum severance pay and help outplace them. At a well-run Model J firms, top-ranked executives and the rank-and-file remain alert to the changing technological and market environment because they all have a stake in their quick adjustment to new competitive situations.

Not all Japanese firms are Model J. After collapsing in 1992, the paralysis of Japanese banks for more than a decade was due to their bureaucratic inertia of Model A. Their collusion with the ruling political party and the central bureaucracy produced Japan's crony capitalism. There are also Model J firms among American and European firms such as Gore Associates in Newark, Delaware (Malcom Gladwell, 2000: 301), Malden Mills in Lawrence, Massachusetts (*The New York Times Magazine*, 1996), and Scannia AB of Sweden (H. Thomas Johnson and Anders Broms, 2000: 225). Starbucks' founder and CEO, Howard Schultz, has built his organization and culture into a Model J firm (Howard Schultz, 1997: 351). Model J organizations are not bound by Japanese culture but by a universally-appreciated culture which treats its managers and

employees as most renewable capital and assets.

Typically, rather than obsessed with their short-term “bottom line,” executives of Model J firms keep track of balanced performance measurements of financial goals, R&D goals, manufacturing goals, and goals of market competitiveness. Japanese Model J firms also track the performance goals of their human resources development. Their financial goals are to improve their 5-year moving average of the value-added of the firms. Unlike Model A firms’ central command-and-control through explicit rules and management by financial objectives, Model J firms cultivate the shared strategic goals from the top to rank-and-filers and corporate culture of mutual cooperation.

Model J organizations and culture (implicit rules of conduct) encourage an adaptive, cooperative, innovative and experimental behavior and mindset. Model J firms prefer training and promoting their managers from within rather than bringing them in from outside. Model J firms often provide profit-sharing rewards for their rank-and-file as well. Vitaly important technology and information capital are readily shared and improved throughout Model J firms’ stakeholders including their external alliance members. Model J firms are learning organizations that reward dynamic economies of scale of learning by doing among their ecosystem members.

The Origins of Japanese Model J Firms—They were “Made in America.”

Until Japan’s defeat in World War (August 1945), Japanese corporations were dominated by Model A types and by robber baron CEOs. At home and abroad “things made in Japan” meant shoddy products. Many CEOs agreed with Shitago Noguchi, the founder of Nippon Nitrogen (established in 1908) and the infamous polluter of natural environment, who told his managers to treat the workers as “cows and horses.” In the days of Japan’s robber baron capitalism, many CEOs mercilessly exploited their workers (E. Patricia Tsurumi, 1990: 213).

However, throughout the 1950's and 1960's, one Japanese firm after another consciously restructured their prewar Model A organization and culture to Model J. One firm after another gave every employee a "salaried" status and bonuses and benefits. Both management and labor unions lobbied successfully the government to enact a universal government-administered health care, unemployment insurance, workplace safety, and minimum wages. Just as Akio Morita of Sony realized, the human resource-based and internally cooperative organization is necessary for rapid growth at home and abroad. This is why Model J firms are found in Japan and elsewhere among companies striving toward international competition, technological innovation and growth.

Japanese executives first learned about quality- and people-first management from America's "arsenal of democracy" of the World War era. Management and employees were united in their goals of winning the war to preserve America's democracy. Management and labor unions developed their cooperative accommodation. They mass-produced quality products and deliver them promptly to where they were needed. CEOs were not obsessed with their compensation packages and stock prices. The Roosevelt Administration prevented private companies from war profiteering which Haliburton and the Carlyle Group—well connected with President Bush—are now exploiting in the Iraq War.

In the fall of 1945, two hands-on engineers of the "arsenal of democracy," Homer Sarasohn and Charles Protzman, were invited to Japan. Their mission was to revive and restructure Japan's manufacturing sectors of telephone, telecommunications, and broadcast equipment. Sarasohn discovered the sorry state of Japan's manufacturing industries, which were plagued by a lack of quality consciousness, low employee morale, and incompetent management. When the start-up problems were brought under control, Sarasohn teamed up with Protzman in 1948 to design and teach intensive management training seminars, the Civil Communication Section (CCS) Management Seminar.

From 1949 to 1950, Sarasohn and Protzman gave a series of intensive

eight-week courses for top executives, engineers, and academics on management and product quality control. They wrote a 600-page text book for their seminar. Afterward, CCS seminar graduates took turns conducting seminars for others over the next 25 years. By 1974, over 5,200 had attended the seminar. The graduates taught CCS lessons to their colleagues who further disseminated the CCS lessons widely inside and outside their firms and schools.

Meanwhile, CCS seminar attendants were eagerly embracing many institutional reforms of “democratizing Japan,” ranging from the dissolution of the prewar Zaibatsu combines, and the general purge of wartime business executives, government officials, and politicians, to the legalization of labor unions. The dissolution of Zaibatsu destroyed the centralized control of each Zaibatsu headquarters over its membership firms. The general purge swept away those executives who had come from the legal, financial, and government relations fields. For each corporation, Sarasohn made sure that people well versed in manufacturing operations, technologies and sales would fill CEO and other top management ranks. This was the beginning of the postwar “Japanese management system” characterized by hands-on executives, team works, and management-employee joint moral ownership of their corporation. Management would not shift the blame for management mistakes and sudden economic shocks to summary layoffs of the rank-and-file. This psychological contract between management and employees became the foundation of emerging Model J firms.

Sarasohn defined leadership as an act of self-sacrifice and the ability to secure the faith and respect of his workers. He taught that a leader must himself be the finest example of what he would like to see in his followers. The goals of contributing to the national interest as well as to democracy are taught as necessary leadership qualities. A leader could gain his workers’ support simply by being loyal to them. Sarasohn stressed the importance of consultation between management and employees. Building employee morale and making effective policies require a constant process of education. He also taught the social responsibility

of a firm and its executives. He recalled in 1989: “I asked CCS seminar participants what the *raison d’etre* of their firm was. Nobody was able to answer this question. I told them that profits or sales could not possibly be their *raison d’etre*. Chasing greedily profits is a low level goal and does not permit them to stay with a changing world. Such greed would merely invite the general public’s wrath” (*The Pacific Basin Quarterly*, No. 16, 1990: 1–5).

Sarasohn’s views of management leadership and the *raison d’etre* of private corporations struck a responsive chord in his Japanese students, who were reminded of Japanese “*Bushido*”—noblesse oblige and the ethical codes of conduct of feudal samurai (warriors)—that guided business and government leaders of the *Meiji* Era, 1868–1911. They propelled Japan from a weak, feudal country into a fast-rising industrial and modern power in Asia.

Many of industrial and merchant leaders of the *Meiji* Era came from the lower-class samurai, village headmen, rural squires, and entrepreneurial merchants. They were intellectually well-versed in the *Bushido* and Confucian philosophy of “*kokorozashi*—public accountability and calling of serving the society.” They embraced the *Bushido*- and Confucian-based “*Shonin Do*—business ethics” of “*Urite Yoshi, Kaite Yoshi, and Seken Yoshi*—balancing the benefits of sellers, buyers (customers) and the society.” Sarasohn’s *raison d’etre* of corporation helped his Japanese business executive students to re-connect intellectually and emotionally with the business ethics that guided their *Meiji* predecessors.

In Conclusion

Clinical physicians are not taught pseudo-science that is harmful to their patients. Physicians take the oath of an ethical code of conduct and their conduct is scrutinized by their licensing boards, by their peer reviews, and by threats of malpractice suits. There is no such scrutinizing mechanism for MBA’s ethical behavior and public accountability. Neither stock markets nor corporate boards rarely prevent CEOs’ hubris and extravaganza. Accordingly, business schools need to help MBAs

develop their ethical conviction to do “no harm” to society.

MBA students must be taught that management is not a pseudoscience, but an art supported by sciences and humanities. A truly effective and respected leadership is characterized by high purpose, honesty, compassion (noblesse oblige), honor, sincerity, self-sacrifice, and moral courage. Business schools should have their students and teachers critically question business and economics theories of market fundamentalism. To counteract MBA’s robber baron culture and Social Darwinism, they could learn from the leadership and hands-on management training of the CCS Seminar that Sarasohn designed (Toshio Goto, 1999: 499).

President Bush boasts that under his leadership, democracy is on the march worldwide, but in reality, it is in retreat. At home, his neo-conservative revolution of “Push America back to the Gilded Age” is dismantling the bedrock of American democracy—the expanding middle class, the social safety net, the public accountability of corporate executives and politicians, the separation of church and state, voting integrity and an independent judiciary. Abroad, without America’s nudges toward democracy, President Vladimir Putin is reviving a dictatorial oligarchy in Russia. Prime Minister Junichiro Koizumi is throwing Japan back to the imperial and jingoistic 1930’s. America, Russia, and Japan are already “kleptocracy” run by undemocratic oligarchs and their narrow interest groups for their own benefits. Kleptocratic rulers often conjure up “divine oracle” to justify their “governing by lies and intimidation.”

As it did when Imperial Japan claimed her self-defense and invaded China in the 1930’s, the kleptocracy uses unilaterally its military power to secure its economic interests and military bases abroad. President Bush’s kleptocracy is also an intolerant, delusional and jingoistic theocracy of Christian Fundamentalism. From the end of the 19th Century through the 1920’s, America’s kleptocratic Gilded Age finally brought about the Great Depression and destroyed American democracy. Only President Roosevelt’s New Deal innovations saved America. On the other hand,

Imperial Japan could not reform itself after Japan's own Great Depression of the 1930's. This was because the rightwing military-industrial cliques captured Imperial Japan after she narrowly escaped the defeat in the Russo-Japan War (1904-05). Deluding themselves to believe that Japan won the war single-handedly, the military-industrial cliques halted Japan's emerging democracy and converted Imperial Japan into a militaristic kleptocracy. Then, Imperial Japan rushed into the invasion of China and eventually into the Second World War with the U.S. and her allies (Yoshihiro Tsurumi, 2002: 349).

After the defeat in World War II, under Sarasohn and other Americans' tutelage, business and government leaders embraced again the *Bushido* ethics and revived the economy and democracy. However, from the 1980's to the 1990's, Japan's democracy progressively atrophied as the collusive foursome kleptocracy of the perennial ruling party-bureaucrats-real estate and financial speculators captured Japan. Japan's modern capitalism lost its democratic restraints and rapidly degenerated into a crony capitalism of rampant business and government corruptions. Finally in 1992, Japan's bubble economy burst. Japanese economy and society have remained stagnant ever since. To revive the economy and society, Japanese business and government leaders must now revive the ethical leadership for democratic reforms and work closely with like-minded elements of the American society that are anxious to prevent America from being pushed into the "New Gilded Age." Both in Japan and America, globally competitive manufacturing and trading firms of "J Types" like Toyota, Honda, and Fujifilm are reminding Japanese and Americans of the antidotes to the dysfunctional management and capitalism of America.

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要 旨

米国のマネジメント教育の機能障害と 欠陥資本主義

31年前、George W. Bush はハーバード経営大学院 (HBS) の私の MBA (経営修士) クラスで、Franklin D. Roosevelt 大統領 (1934 ~ 45 年) を「社会主義者」と呼び、同大統領による企業不正監視の証券取引委員会 (SEC) 設置や失業保険の設立はじめ、Social Security (高齢者社会保障年金) の設立など、一連の New Deal 改革を「私企業活動の邪魔になる」と批判した。事実は、ニューディール改革及び米国経済運営に連邦政府が積極的役割を果たした為に米国は大恐慌から脱出し、第二次世界大戦を勝ち抜き、続いて戦後の未曾有の Golden Age (経済黄金時代) を起こし、米国の民主主義と資本主義の修正回復を可能にしたのである。

しかし、ブッシュ大統領は 31 年前に見せた偏見と無知に輪をかけて、偏狭なキリスト教原理主義 (日本の国粋者の靖国信仰に似た白人至上主義) で武装して、百年前の成り金と社会不正と他国侵略の帝国主義が横行したアメリカ金ピカ時代 (“Gilded Age”) へ米国を押し戻すのに没頭している。公的年金の積立て不足とか、「民業圧迫」とかの嘘を広げては、ブッシュ大統領はウォール街と企業の要望どおりに、Social Security (日本の国民年金に当る) の私的投資信託化を狙っている。

エンロン以下の腐敗企業とウォール街の証券会社や銀行との癒着は、SEC による不正監視と投機取引の規制をブッシュ大統領がゆるめたからだった。今また、2005 年 7 月にはクリストファー・コックス (Christopher Cox) というカリフォルニア州選出の下院議員 (共和党) をブッシュ大統領は SEC の委員長に任命した。コックスも 31 年前に HBS で私の学生の一人だったが、ブッシュ同様に SEC の骨抜きを唱えていた。コックス SEC 委員長はブッシュ大統領の意に従って、企業とウォール街の癒着腐敗の再来防止にと、民主党と共和党の改革派議員が通したサーベン・オークスリー法 (The Sarbanes-Oxley Act) の骨抜きに注力する。このままでは、米国資本主義は再び談合・情実型 (Crony Capitalism) へと腐敗する。

31 年前は、MBA 学生の中でも時のブッシュの様な学生は少数だった。しかし、今では、米国の MBA 学生と教師の大多数が、「貪欲は美德なり」として、自分達や私企業の行動につ

いて道徳的並びに社会的責任を負う必要なしと思ひこんでいる。ブッシュ大統領はこうした MBA 的文化 反知性, 不正義, 貪欲, そして弱者への思いやりのなさ を体現している。「私欲達成の為には手段を選ばず」が彼等の特徴である。

ブッシュ大統領を見習って, 米大企業の経営トップには社員の首を切ったり, 彼等の賃金を削る一方で自分達だけにはお手盛りで一般社員の年収の 600 倍から 1,000 倍の報酬をつかみ取る者が多い。また, 昨今, 明るみに出た米大企業経営者の腐敗は, Enron, Tyco, Health-South, Haliberton, Citicorp, AIG, Arthur Anderson, WorldCom, そして Global Crossing の各社に見られるように, 米国で MBA 教育を受けた者によるものが目立つ。MBA 教育の機能障害が米国の民主主義と資本主義を破壊している。

MBA 教育の機能障害は, これまでの 30 有余年, 米国の経済学と経営学が, いわゆる市場原理主義者 (Market Fundamentalist) によって占領されているからである。

彼等は私企業の市場行動は道徳的にも善であり, 金権主義による個人と企業の市場での競争が社会的公正をも自然ともたらずと観念的に信じこんでいる。彼等は独占の弊害とか大企業と政府権力との癒着の弊害, そして企業や個人の反社会行動は「例外中の例外」と思ひこんでいる。

彼等の「教祖」は Milton Friedman で, 「弱肉強食」と「力は正義」という適者生存の社会的ダーウィン主義を信奉している。フリードマンは「私企業は株主の為に利益極大だけを心がけるべきで, 社会的責任や道徳的責任など気にかける必要なし」と極論する。これは, 同じ市場原理主義者でも, フリードマンの同僚の Friedrich Von Hayek からも「偽せ学問 (Pseudo-Science)」と嘲笑されたのだが, フリードマン達は気にかけない。

フリードマン派の偽せ学問は経営教育のうち特に, 経営政策, マーケティング, 会計, 企業統括, ファイナンス, 組織管理, そして人事管理の分野を支配している。これら偽せ学問の吹聴者には, Michael Porter, J. Jensen, O.E. Williamson がいる。フリードマン以下, 市場原理主義者達はすべて, Adam Smith の *The Wealth of Nations* (「富国論」, 1776 年刊) を自論の寄所としているが, スミスの理論と主張を曲解している。

アダム・スミスの 900 頁余の「富国論」のどこを探しても、「私欲を追求する為には他人を傷つけても社会の利益になる」などとは言っていない。また、「私企業の金儲けの為には社会の倫理規範を無視してもよい」などとはスミスは論じてはいない。

ところで、米国のマネジメント教育と資本主義下の企業行動 (A 型) の誤ちの解毒剤は、第二次世界大戦に敗れた後の日本の復興の原動力となった、いわゆる日本的経営 (J 型) の真髄との比較である。この真髄とは俗説による 年功序列、 終身雇用、 企業内労働組合ではなく、 J 型企业体の真髄は 現場主義 (Hands-on Management)、 企業内外の協調 (Cooperative Alliance and Multi-stakeholders)、そして 倫理的指導者 (Ethical Leadership) である。

この J 型企业体と行動を敗戦直後に、特に日本のメーカーの経営者と幹部に教えたのは Homer Sarasohn である。同氏が主体となった Civil Communication Section (CCS) Management Seminar がこれに続いた Edward Deming 博士の品質管理セミナーと共に、日本の復興、そしてこれに続く経済大国への道を可能にした。

CCS セミナーでサラソン氏は、企業の存在理由 (Raison d'être) は金儲けではなく、社会奉仕と民主主義実践であるとして、「志の高い経営」を説いた。この教えは、その昔、明治の日本の近代化を支えた人達の武士道や商人道 (売り手よし、買い手よし、世間よし) の再現でもあった。

2005 年は日本にとっては日露戦争 (1904 ~ 05 年) 終結から百年目である。しかし、日露戦争には帝国日本が独力で勝ったと思いがったのが、軍、産、官、政、メディアの各界だった。彼等は明治維新以来の武士道や商人道を捨てて、国粋軍国主義の帝国日本を作り上げた。この結末が中国侵略から対米開戦、そして 1945 年 8 月 15 日の第二次世界大戦での敗戦だった。

今、再び、敗戦後の日本復興の教訓を忘れて、日露戦争後の誤ちを繰り返そうとしている。倫理的指導者が消えて、民主的歯止めが消えると、資本主義は腐敗し、談合・情実型 (Crony Capitalism) となり、バブル経済破裂から大不況や長期低迷となる。日米共に、特に政、産、官界に倫理的指導者の育成が急務である。