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by Philip Delves Broughton
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Harvard's masters of the apocalypse

If his fellow Harvard MBAs are all so clever, how come so many are now in disgrace?

IF ROBESPIERRE were to ascend from hell and seek out today's guillotine fodder, he might start with a list of those with three incriminating initials beside their names: MBA. The Masters of Business Administration, that swollen class of jargon-spewing, value-destroying financiers and consultants have done more than any other group of people to create the economic misery we find ourselves in.

From Royal Bank of Scotland to Merrill Lynch, from HBOS to Lehman Brothers, the Masters of Disaster have their fingerprints on every recent financial fiasco.

I write as the holder of an MBA from Harvard Business School — once regarded as a golden ticket to riches, but these days more like scarlet letters of shame. We MBAs are haunted by the thought that the tag really stands for Mediocre But Arrogant, Mighty Big Attitude, Me Before Anyone and Management By Accident. For today's purposes, perhaps it should be Masters of the Business Apocalypse.

Harvard Business School alumni include Stan O'Neal and John Thain, the last two heads of Merrill Lynch, plus Andy Hornby, former chief executive of HBOS, who graduated top of his class. And then of course, there's George W Bush, Hank Paulson, the former US Treasury secretary, and Christopher Cox, the former chairman of the Securities and Exchange Commission (SEC), a remarkable trinity who more than fulfilled the mission of their alma mater: "To educate leaders who make a difference in the world." It just wasn't the difference the school had hoped for.

Business schools have shown a remarkable ability to miss the economic catastrophes unfolding before their eyes.

In the late 1990s, their faculties rushed to write paeans to Enron, the firm of the future, the new economic paradigm. The admiration was mutual: Enron was stuffed with Harvard Business School alumni, from Jeff Skilling, the chief executive, down. When Enron, rotten to the core, collapsed, the old case studies were thrust in a closet and removed from the syllabus, and new ones were promptly written about the ethical and accounting issues posed by Enron's misadventures.

Much the same appears to have happened with Royal Bank of Scotland.

When I was a student at Harvard Business School, between 2004 and 2006, I recall a distinguished professor of organisational behaviour, Joel Podolny, telling us proudly of his work with Fred Goodwin at RBS. At the time, RBS looked like a corporate supermodel and Podolny was keen to trumpet his role in its transformation. A Harvard Business School case study of the firm entitled The Royal Bank of Scotland: Masters of Integration, written in 2003, began with a quote from the man we now know as Fred the Shred or the World's Worst Banker: "Hard work, focus, discipline and concentrating on what our customers need. It's quite a simple formula really, but we've just been very, very consistent with it."

The authors of the case, two Harvard Business School professors, described the "new architecture" formed by RBS after its acquisition of NatWest, the clusters of customer-facing units, the successful "buy-in" by employees. Goodwin came across as a management master, saying: "A leader's job is to create the conditions that enable people to believe, in their hearts and minds, in the value of what they are doing."

Then just last December, Harvard Business School revised and republished another homage to RBS — The Royal Bank of Scotland Group: The Human Capital Strategy.

It is tragic to read now of all the effort put in by those under Goodwin, from "pulse surveys" to track employee performance to "the big thank you", a website where managers could recognise individual excellence in customer service.

Every trendy business school idea was being implemented, it seemed, while what really mattered — the bank's risk assessment, cash flow and capital structure — was going to hell. To be fair, neither Podolny nor the authors of the case studies were finance professors, but it's still pretty shocking that a school that purports to teach general management should fail to see the gaping problems at a firm they studied in such depth.

Is there a pattern here? Go back to the 1980s, and you find that Harvard MBAs played a big enough role in the insider trading scandals that washed through Wall Street for a former chairman of the SEC to consider it a good move to donate millions of dollars for the teaching of ethics at the school.

Time after time, and scandal after scandal, it seems that a school that graduates just 900 students a year finds itself in the thick of it. Yet there is remarkably little contrition.

Last October, Harvard Business School celebrated its 100th birthday with a global summit in Boston. While Wall Street and Washington descended into an economic inferno, Jay Light, the dean of the school and a board member at the Blackstone private equity group, opened the festivities by shrugging off any responsibility.

"We all failed to understand how much [the financial system] had changed in the past 15 years or so, and how fragile it might be because of increased leverage, decreased transparency and decreased liquidity: three of the crucial things in the world of financial markets," he said.

"We all failed to understand how that fragility could evidence itself in a frozen short-term credit system, something that hadn't really happened since 1907. We also probably overestimated the ability of the political process to deal with the realities of what could happen if real trouble developed."

"What we have witnessed is a stunning and sobering failure of financial safeguards, of financial markets, of financial institutions and mostly of leadership at many levels. We will leave the talk of fixing the blame to others. That is not very interesting. But we must be involved in fact in fixing the problem."

You would think after failing on so many levels, the school that provides more business leaders than any other might feel some remorse. Not in the least. It's onwards and upwards, with the very people who blew apart the world's financial plumbing now demanding to fix the leak.

You can draw up a list of the greatest entrepreneurs of recent history, from Larry Page and Sergey Brin of Google and Bill Gates of Microsoft, to Michael Dell, Richard

Branson, Lakshmi Mittal — and there's not an MBA between them.

Yet the MBA industry continues to grow, and business schools provide vital income to academic institutions: 500,000 people around the world now graduate each year with an MBA, 150,000 of those in the United States, creating their own management class within global business.

Given the present chaos, shouldn't we be asking if business education is not just a waste of time, but actually damaging to our economic health?

If doctors or lawyers wreaked such havoc in their own professions, we would certainly reconsider what is being taught at medical and law schools.

During my time at the school, 50 students were chosen to participate in a detailed survey of their development. Scott Snook, the professor who ran it, reported that about a third of students were inclined to define right and wrong simply in terms of what everyone else was doing.

"They can't really step back and take a critical view," he said. "They're totally defined by others and by the outcomes of what they're doing."

A group of people unable to see their actions in the broader context of the society they inhabit have no business being self-regulating. Yet in the financial services industry this is pretty much what they demanded and to a large extent got — with catastrophic consequences.

The happiest in my cohort, which graduated into the rosy economic conditions of 2006, are now certainly those who went off to do the unfashionable jobs: a friend who spurned Wall Street to join a Mid-western industrial firm, and now finds himself running the agricultural division of an Indian conglomerate; one who joined a foundation promoting entrepreneurship; one who went into Boston city government, another who moved to Russia to run a cinema chain.

However, these were the rarities: 42% of my class went into financial services and another 21% into consulting, both wretched sectors to be in today and for the foreseeable future.

Applications to business schools in America and Europe are broadly up, as people search for a safe haven from the recession. What are they thinking? Many MBA jobs will not be coming back. Students who stump up more than £60,000 for a two-year MBA can expect a long wait to make that back.

For those about to graduate from business school, these are grim times. Financial and consulting firms, which used to soak up two-thirds of the MBAs from top schools, have all but vanished from campuses. Suddenly jobs in government and at nonprofit organisations are in hot demand from students who used to consider them laughably underpaid.

A dose of modesty among MBAs and business schools is long overdue. But it's not going to come from Harvard. Light, told his audience in October: "The need for leadership in the world today is at least as great as it has ever been. The need for what we do is at least as great as it has ever been."

A bold claim to which many might say: please, spare us.

Philip Delves Broughton is the author of What They Teach You at Harvard Business School, published by Viking at £12.99.