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A Call to Responsible Leadership, Keynote Speech at the FHW Berlin MBA Graduation Ceremony 2006, November 24th, 2006, Berlin City Hall

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Keynote Speech at the FHW Berlin MBA Graduation Ceremony

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Dear Professor Rieger,

Professor Tolksdorf,

members of the faculty,

dear guests from the partner schools,

dear graduates, families and friends,

I am honored to be here with you this evening to offer my thoughts upon your graduation.

Let me start by congratulating the around 120 of you graduating today from the

- MBA European Management, which already has a long tradition of 15 years
- MBA European-Asian Program, which in addition to management knowledge offers a focus on the cross-cultural and soft skills which are so critical for business in Asia
- MBA General Management with its focus on key areas of competence and a dual award in the U.K and Germany
- MBA Entrepreneurial Management with its focus on growth and innovation
- MBA Health Care Management, which addresses an industry in a major change process of becoming more competitive and business-focused

Congratulations on this great achievement!

I would also like to use this moment to thank all of those who have supported you on this journey: your parents, I see many of them sitting here tonight and looking at you very proudly, your spouses and significant others: saying finally you could do the dishes after dinner and not run to your books. I want to thank your children, who will have their mom or dad to play with them again and listen uninterruptedly to their stories, your friends, who will be happy to have you back, and finally the dedicated faculty of the Berlin School of Economics who, which goes without saying, are happy to see you graduating from each of the programs. Based on my experience of pursuing my doctorate degree later in life, being married , a father of two and working full time, I very much believe in the saying that "it takes a village to raise a child" and I would say that it takes a supportive community for an MBA to graduate. So, in the spirit of the Thanksgiving Holiday which my family and I are celebrating this weekend with millions of Americans, I

allow myself, on your behalf, to say a big thank you to your family, friends, and faculty.

1. Business and the MBA – A Controversial Field and a Controversial Degree

Now that I have acknowledged your efforts and accomplishments, let me be somewhat provocative and point to the fact that I cannot imagine acquiring a more controversial degree than an MBA in a more controversial field than the field of business. I would like to outline the reasons for this provocation and offer some of my views on corporate business in general and business education in particular as food for your thoughts as you embark on the next chapter of your career.

To answer the question whether business is a controversial field all one needs to do is to open the Berliner Zeitung, the FAZ, or any other newspaper on any day of the week and read the media coverage of the corporate world. The media are dominated by stories such as the historic collapses of Parmalat, Enron, and WorldCom, the mentioning of the stock market scandals, the negative impact of globalization where jobs are eliminated in Germany and the rest of western Europe and outsourced to developing countries for a fraction of the pay. If all of this is not enough, there are weekly reports on top executives who receive compensation in a ratio of 500 to 1 in comparison to their front line workers. In addition, Hollywood has been constantly contributing to this image with movies such as Wall Street on the finance business (proclaiming that Greed is good), the “Constant Gardner” on the pharmaceutical industry, and “Syriana” on the oil companies, all making today’s business responsible for most of the bad that happens in our world. And when you read it in the papers, see it on T.V. and in the movies, hear about it on the street, you really start thinking that business is the origin of all evil.

And why do I refer to the MBA as a controversial degree? Practically for decades, the field of education has not seen a more controversial degree than the MBA with the criticism moving in a pendulum from the academic to the business sectors and sometimes coming simultaneously from both sides. On the academic side, as early as the 1920’s and continuing with landmark reports in the 50’s and 90’s, top academics in different parts of the world have been criticizing business education, its low level of scholarship, and the overwhelming influence of business in university affairs. In 1994, the Commission on Management Research highlighted the poor quality of management research and predicted

that if trends persisted, most knowledge creation would be based in the workplace, leaving the schools merely as verifiers. I think you would agree that this sounds like “the kiss of death” to an academic branch when instead of being recognized for the creation of knowledge and infusion of new ideas and tools into the business world, it is seen as lagging behind and only reciting the developments, which are happening in the field. On the business side, corporate critics have not been sparing the schools from their critical comments. In his book which I am sure some of you have read: “What they don’t teach you at Harvard Business School”, Mark McCormack argued that if Thomas Edison had gone to a business school, we would all be reading by larger candles and the light bulb would not have been invented. It would have been “gemütlich” maybe to be sitting under such a light here in the Berlin city hall but it would not have brought knowledge to the next level in this and in other areas. Booz-Allen’s report in 2003 argued that MBA education does not prepare people adequately for the tougher-than-average challenges they will face when starting careers at leading corporations.

Summarizing a century of struggle in their HBR article, Warren Bennis und James O’Toole (2005) claimed that business schools have lost their way, are caught up in irrelevant research, working with professors without enough real-world experience and graduating students that are not capable of solving the complex issues of the real business world.

So after this short description of some of the negative sentiments against the business world as a source of all evils and business education as a controversial degree that does not meet academic or business expectations, should you hide your fresh degree in Business Administration? Alternatively, should you reconsider your career choices before it is too late? Or maybe I should ask the parents in the room, would you have preferred to see your children graduating from a medical school this evening instead of pursuing a career in business? As an executive responsible for learning and knowledge creation in a multinational organization, I would suggest you do not jump to conclusions just yet.

1.1. Business and the MBA – Added value and the Progress Made

Despite the criticism of business that we are exposed to on a daily basis, the fact remains that most of humankind’s hopes for its future are made attainable by enterprise. If we look at results in the measurable form of jobs created, lives enriched, communities built, living standards raised, and poverty healed, a

handful of capitalists have done a great deal for humankind. So given the messages it receives from popular culture, the world may underestimate the power business has to change society for the better. Commercial trends such as outsourcing, technology, and globalization, all of which are constantly criticized, have roles to play in developing a strong interdependent global economy. Please allow me to offer you some examples.

Two dramatic such examples of the positive effects of business were the outsourcing by western companies to Hong Kong and Singapore. These two economies, which only 25 years ago had third world labor rates, are both thriving and rival the world's most developed. Counter to the arguments of many journalists, politicians, and others that outsourcing is to be blamed for many of the world's problems, the benefit to the west has been clearly demonstrated with exports from the European Union in 2003 exceeding \$38 billion. The painful loss of jobs in the short-term created millions of new consumers of the world's goods and services, with the industrialized nations being among the prime beneficiaries of that increased global wealth.

Another example, which is near and dear to my heart, is the situation in Connecticut where my family and I lived before moving to Berlin. In this state and the rest of New England in the North East part of the U.S. residents faced the loss of millions of textile jobs in the 1950's when that industry moved south to be closer to the source of cotton and to take advantage of the south's lower wage rates. Yet today, residents of these towns live much better than the

generation before them did, with areas now called the "golden coast" of the U.S., not only due to their beautiful beaches on the long island, but also due to the average income of its residents who are focused on the finance and retail industries. Again, with innovative business solutions dynamic economies adjust in a capitalistic environment and trends that seem like threats turn into opportunities.

It is the private sector, ladies and gentlemen, that has significant entrepreneurial responsibility for softening the effects of the business cycle and for keeping unemployment and depression at bay. It is this exciting sector that you are joining or re-joining as MBAs today.

Now to the second part of my provocation: what about business schools? Are they really all bad? Do professors really not see that they have as much

responsibility for educating professionals to make practical decisions as they do for advancing the state of scientific knowledge?

Here, I would argue that there is no doubt that business schools may be regarded as a success story of the 20th century. The number of MBA programs has increased and new ones emerge from Australia to South America on an ongoing basis. Germany has two hundred programs and in Berlin alone there is a large variety to choose from. According to the 2006 GMAC Application Trend Survey, MBAs are flourishing with student applications, especially for the executive MBA which is 20% higher than last year. Finally yet importantly, graduates are getting higher salaries and their job prospects are steadily improving with Wetfeet Research indicating 2.3 job offers per graduate of top tier schools in comparison to 2 in the past. So in such a case, the business schools' key stakeholders must be at least somewhat satisfied and schools must be doing some things right. Additionally, the good news is that there is a fair amount of effort made to improve things. Schools are looking into their value-added propositions and the dwindling financial funds are forcing more of them to evaluate their reason for being and their contribution. Ranking agencies and accreditation bodies which are challenging schools to meet key quality criteria are playing a role and some schools are emerging as best in class.

As a member of the Berlin School of Economics Kuratorium and as the supervisor of two graduates who I recently hired from this school's programs, I have been pleased to witness many efforts taken by the school to live up to high quality academic standards while incorporating business relevance into the programs.

To name just a few of these examples I would mention:

- A Bologna-related curriculum redesign, in which I participated – helping reduce the complexity of degrees, streamline programs, and contribute to a greater transparency and increased possibilities for mobility of students during their studies and for employment
- The Re-accreditation of the European-Asian and Entrepreneurial Management programs by FIBAA: Helping ensure quality criteria are met and external reputation is enhanced
- The agreement of the Berlin School of Economics with the Charité to cooperate in post graduate management education – Linking academia

and practice and ensuring business and industry relevance of teaching and research

- The successful cooperation of the Entrepreneurial Management Program with the Barton School of Business on joint internationalization strategy projects for American companies towards Europe and vice versa – Focusing on business relevance, cross cultural experience and best practice sharing

Is there still a long way to go? Indeed, this seems to be the case and it is my hope that the schools will acknowledge that management is no more a science than is medicine. Both are practices whose students need to pick the questions that are relevant for life in organizations and answer them in a rigorous way making use of scientific methods in a pragmatic sense.

In summary, I would say that business leaders, when they compete effectively, ethically, and lawfully - as I am convinced most of them do - are performing a vital service to our society. So rest assured that in spite of the debates around your newly acquired degree and the field you are working in, you have accomplished something great in an area that has the potential to have a profound influence on our world. Therefore, you family members and friends should continue to feel proud of the accomplishments of your loved ones.

1.2. The Challenge Ahead: Becoming Responsible Leaders

With great potential comes tremendous responsibility and yours is that of leadership. Leadership of your teams, your organizations, your communities, and our world at large. In this context, I very much agree with Henry Mintzberg who says that no leader has ever been created in the classroom. So no matter what you have learned so far, tonight the clock goes back to zero, your leadership will be learned and earned only on your job. I know that some of you already have jobs you are moving into directly after graduation. Others are still interviewing and exploring the job market. In any case, it is clear that the 120 of you are going to be leading groups of people from a few individuals to hundreds. Even with conservative measures, I would say that within a decade from today, this very same group of graduates sitting here at the Berlin city hall will have direct leadership responsibility over hundreds of people and indirect influence over the lives of many more in all parts of the world. After all, if I were speaking to a group of medical school graduates I would speak to them about the precious resource that they will be responsible for upon graduation and the patient in the operating

room whose life is going to be in their hands. However, your operating room is a much larger one and your leadership could have a profound influence for better or for worse on hundreds if not thousands of people around the world.

After looking back at what you have achieved and reflecting upon the degree you have acquired and the field you will be working in, in the last part of my address I would like to talk to you about what I think responsible leadership is about and why it is needed.

2. The Foundation of Responsible Leadership: Personal Integrity

I see a responsible leader as a person of integrity who concerns himself or herself with the job he or she is expected to be doing, but also, and not to a lesser degree, with the people under his or her command, and the world around him or her.

When we talk about integrity, I see it as the foundation for responsible leadership and while it is hard to define, Peter Drucker suggests that you could easily identify a leader who lacks it when he or she:

- sees what people cannot do but never anything they can do
- asks “who is right” instead of “what is right”; playing it safe, engaging in politics, and covering up mistakes
- considers intelligence to be more important than integrity
- is afraid of strong subordinates
- does not set high standards for his or her own work

As leaders in corporations, we are entrusted with goods and with the lives of people. As managers, we make decisions which directly affect our subordinates, the organization, and society. The difference to other jobs is one of scale and the more our potential impact in organizations grows, the larger the authority we are given, and the more crucial it is for us to act with integrity.

2.1. Responsible Leaders - Concern for the Job

As we look at the three spheres in which we have influence: job, people, and the world, we obviously start with the job itself. The expectation of you as a responsible leader is that your first and top priority will be to make your organization perform for your customers and produce wealth for your shareholders. However, your responsibility as a business leader will go well

beyond P&L responsibility to include responsibility for your direct reports, your communities and yes, the world.

2.2. Responsible Leaders – People

When we talk about people long gone are the days when a manager had all of his team members sitting around him or her. Many of you have led teams already and you know what a challenging task it is in corporations these days to lead cross-functional, cross-national, and virtual teams in a matrix or project structure where you need to use more influence than authority. My teams are sitting in multiple locations around the world, we meet only virtually through video conferencing when the screen is split into four parts, we live in different time zones, and we speak different languages.

After going through many mergers, acquisitions, divestitures, and restructuring processes in the last 20 years of my career, I am convinced that the legacy of responsible leaders does not stem from how they met their quarterly profit targets but how they handled the people issues. How they helped people separate from the past, embrace the future, and engage in change and the building of a high performing culture. People issues are at the core of management and responsible leaders know that it is people who make or break an organization. All too often, this is forgotten and leads to business decisions which make sense on paper but which do not fit the organization and its people who have to implement and live these.

The larger the authority and responsibility you acquire, the less you will actually be able to do yourself and the more you will need to rely on others. So make it a priority to create an environment where people feel motivated to work hard and smart. Set high standards for your own work, so others will accept high standards for theirs and create a community characterized by respect and mutual trust and collaboration.

2.3. Responsible Leaders – Community and the World

Being a responsible leader in corporations means that your responsibility is even broader than for your direct reports and the organization you work for. The barriers between the spheres of politics, business, science, and private life have diminished and business and corporations influence the way of life for all of us.

A recent book published in Germany by Gabor Steingart, “Weltkrieg um Wohlstand” talks about the labor market which has become globalized and workers in Europe and America competing with those in India & China who get lower pay, have less rights and safety standards and are not engaged in efforts

to protect the environment. As a responsible manager in charge of policy, strategy, or activities such as mergers and acquisitions and outsourcing you could look at this as a threat to the west, as a chance for developing countries where, funnily enough, socialist equality is being achieved by a capitalistic free trade, or anywhere in between. What I would like to suggest is that the important thing is that you think about these issues, that you strive to understand the big picture and come up with responsible alternatives for your business, the environment, and the world. After all, the situation described could lead you to simply focus on profit, to protectionism of your part of the world, or to ideas such as the participation in discussions about the creation of a north Atlantic free trade zone.

Aristotle taught us that “leadership consists of the ability to identify and serve the common good” – that is not an easy task but also not something, we could afford to shy away from. As responsible leaders, we need to be aware of the global developments, strive to understand them, and be proactive and take charge. Not only to increase our corporate success, improve our sales numbers, enhance our brand and reputation and push unwanted regulators away, but also to fulfill our role and responsibility for the world. It was the combination of these reasons which drove Kofi Anan and 2000 CEOs from around the world to sign the global compact to advance ten universal principles in the areas of human rights, labor standards, the environment, and anti corruption. It is here where you as responsible leaders should spend some of your time thinking and acting since as Peter Drucker said: every leading group must be able to claim that the public good determines its own interest. This assertion is the only legitimate basis for leadership and to make it a reality is the first duty of each of us.

3. Taking the Oath for Responsible Leadership

To conclude I would like to say that the challenges I have described regarding profit and loss, leading teams, the organization and society are your future challenges. If I go back to my metaphor of a medical doctor in an operating room he or she takes the oath after years of studies and residency, ethic committees oversee his or her work, professional associations establish quality standards and their laws regarding malpractice set clear lines.

As business leaders, your decisions will have similar impact on the lives and well-being of your employees, your customers, your suppliers, and others. However, your operating room is a much larger one, including your direct reports, the company, the community, and the world. Your formal education process was a

shorter one and there are much fewer regulations offering you guidance. You must find it for yourself and commit yourself to responsible leadership.

For medical doctors, the responsibility for their profession was clearly spelled out more than 2000 years ago in the Hippocratic Oath emphasizing, “above all it is their responsibility not to knowingly do harm to others.” As you go up to receive your certificate and to start the new chapter of your lives as leaders in organizations, I would like to ask you to take the oath of responsible leadership. Are you willing to take the oath and commit yourself to responsible leadership with personal integrity and a true sense of commitment for your direct reports, the community, and the world? My hope is that you will all say yes.

Congratulations to you once more and thank you very much.

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