

THE WALL STREET JOURNAL.

OPINION: APPRECIATING THE BIG ROLE OF SMALL BUSINESSES

A class at Harvard teaches M.B.A. students the joys – and opportunities – of running a small firm.

By Nitin Nohria
September 2, 2016

Why isn't anyone talking about Joe the Plumber in this presidential election? America's small-business owners, which he symbolized in the 2008 campaign, are nowhere to be seen. The national attention seems to have shifted to big business and its effect on growing economic inequality.

On Labor Day weekend it's worth reminding the candidates how much of America's workforce and economic growth depend on small firms. "Half the people who work in this country either own or are employed by businesses with fewer than 500 employees," Karen Mills, former head of the Small Business Administration, wrote last year in the Harvard Business Review. These companies produce 46% of private economic output and 33% of the value of U.S. exports, SBA data show.

Like political candidates, institutions such as Harvard Business School are sometimes guilty of not paying sufficient attention to small firms. But even as these companies have receded from the 2016 campaign, schools like ours are working to increase the focus on them.

One of our graduates has launched an organization called MBAs Across America to encourage business students, from any school, to spend their summers giving pro bono help to small-business owners across the country. And through local chapters called Community Action Partners, Harvard alumni work as volunteer consultants to small businesses and nonprofits in their communities.

The most visible manifestation of Harvard's increased focus is a class called Financial Management of Smaller Firms, taught by professors Richard Ruback and Royce Yudkoff. M.B.A. students learn in the course how to seek out, purchase and run small companies – and after graduation many are doing just that. By applying M.B.A. skills to these businesses, graduates have been able to sharply improve profitability and valuation – much like a private-equity firm does, but on a smaller scale.

Convincing students to go this route seems an unlikely mission. At Harvard and elsewhere, most M.B.A. graduates aspire to work in fast-growth startups or giant multinationals. Somehow, Messrs. Ruback and Yudkoff are persuading them to eschew the comfort of these conventional M.B.A. career choices to become their own bosses, often in out-of-the-way towns far from Wall Street or Silicon Valley.

In the five years since the course was launched, former students have gone on to acquire and run a musical-instrument rental company in Pennsylvania, a home health-care business in North Carolina, a New Jersey firm that tests fire hoses, and scores more. The class has become so popular that we now offer three sections a year, with a wait-list clamoring to get in.

Historically, small firms haven't been very interesting to scholars or students at business schools. We haven't wanted to study them. Instead, we have wanted to study (or work at) Google, Facebook, Microsoft, Goldman Sachs, Blackstone or General Electric. Those companies are highly innovative, and it's only natural that we're drawn to exciting and fast-changing industries.

The neglect of small businesses stems in part from the sense that they aren't very dynamic – that in contrast with startups, they don't really grow or change from year to year. In a 2011 paper published by the National Bureau of Economic Research, Erik Hurst and Benjamin Wild Pugsley of the University of Chicago found that most of the people running these companies are content to stay small and continue offering the same kinds of products or services as competitors.

"Most firms start small and stay small throughout their entire lifecycle," they write. "Also, most surviving small firms do not innovate along any observable margin."

Profs. Ruback and Yudkoff are challenging that attitude. Their argument is that well-trained and energetic new managers can bring process innovations to these businesses that can fundamentally alter their trajectories. In many cases, the firms purchased by Harvard Business School graduates have begun hiring and growing. The alumni who are running them can make a good living today – and potentially see very good returns in the future, if and when they sell their better-run, more-profitable firm at a premium.

Though it clearly isn't necessary to have an M.B.A. to be a successful small-business owner, I applaud the efforts of my colleagues for sending more of our graduates into this vital swath of the economy. And while I don't believe Joe the Plumber needs another 15 minutes of fame, I do hope that the question of how to create policies that support small companies gets more attention during the coming debates and the final few weeks of this presidential campaign.

Mr. Nohria is the dean of Harvard Business School.