

Insidious MBAs

The reaction of many budding financiers and consultants when faced with an economic downturn is to pack it in and go to business school. Business school applications soar in number during recessions. A lively debate between Andy Lo and Jay Lorsch and Rakesh Khurana questions if business schools are actually to blame for our current turmoil.

Messrs Lorsch and Khurana, professors of human relations and leadership at Harvard, think so. They believe business school can encourage the "culture of me", or individuals solely out for their own self-interest:

"Ideas and tools—exotic financial instruments, poorly designed compensation plans, models of corporate leadership that value leaders' charisma over substance, an uncritical embrace of laissez-faire models—were taught to MBA and executive-education students without considering whether these idea and tools would contribute to a firm's long-term well being or endanger the legitimacy of the U.S. capitalist system".

Mr Lo, an eminent MIT finance professor, reckons that the nature of the crisis highlights the need for MBA education. He believes self-interest and greed are innate to humans. Business school can counteract this inclination by breeding thoughtfulness and intellect. The nature of the financial industry has changed, becoming more technical. MBA students can learn the tools commonly used in modern finance while learning how to model and balance risk properly.

This reminds me of a discussion I once had with one of my professors, the dean of a prestigious business school. Shortly after the Enron debacle he asked me how business schools could better teach ethics to help reduce such behavior in the future. I told him you cannot teach ethics to MBAs. By the time you're an MBA student (typically mid to late 20s) you're either an ethical person or you're not. No business school class can make you realize embezzling money is wrong if that's your inclination. Most MBA students are ethical; they learned from their parents long ago.

In the latest crisis, one thing that went very wrong was that many people sold exotic products they didn't fully understand. The people who created the products did, but many on the business side did not. Business schools need to break that barrier. This would involve teaching exotic financial instruments and responsible risk management strategies to everyone considering a career in finance.

A significant problem with MBA programs is that such classes are not compulsory. To be fair, many business schools offer excellent financial modeling classes, but often only a minority of students self-select into them. MBA programs are a business for the university—one that brings in lots of revenue, especially from alumni donations—and that means that keeping students happy is a top priority. That often translates into curricula that allow students to avoid the most rigorous courses (and particularly anything involving harder maths, which tend to frustrate even the very bright). I once had a class of MBA students descend into near hysterics and complain bitterly when I insisted they use logarithms.

If a curriculum lacks intellectual rigour, students never realize how little they really know. The arrogance propagated in business school may well have contributed to the financial crisis. I agree this presents an opportunity for business schools—students should get more rigour, and more humility.

The Economist, London, 29 jan. 2009, Education, online. Disponível em <www.economist.com>. Acesso em: 2 fev. 2009.