Amid economic carnage, business schools mull fixes

Francesca Di Meglio

In and outside the classroom, students and professors are debating the causes of, and cures for, the economic crisis. Wanted: ethics and jobs.

Until recently, the world's business schools have been largely sheltered from the gale force winds that have buffeted the global economy, but that's starting to change.

In and out of the classroom, business school professors and their students are struggling to make intellectual sense of a crisis few of them anticipated. Workable solutions remain elusive, but ideas are plentiful, particularly about the causes of the crisis—a perfect storm that saw the simultaneous collapse of the banking system, the bursting of the housing bubble, and the rapid evaporation of trillions of dollars in shareholder wealth.

At the same time, students themselves are confronting a stark new economic reality of their own. Burdened with debt and entering a market for MBA talent that's getting grimmer by the day, many are questioning their reasons for getting an MBA. "There's no way the economic crisis doesn't make every single person rethink what he or she wants to do and whether it's a good time to do it," says Guy Turner, a first-year student at the University of Chicago Booth School of Business.

A vibrant crisis blog at MIT

Although the official history of this crisis will be written by economists many years from now, what's happening on business school campuses today—in classrooms, faculty offices, and hurried campus walks—amounts to a rough first draft. For many business school professors the quest for causes is by far the most appealing aspect of the crisis. "The most interesting conversation is trying to sort out the reasons, the why of it," says Susan Chaplinsky, professor of Business Administration at University of Virginia Darden School of Business. "What safeguard wasn't tripped and why was there this 'group' thinking?"

Causes of the crisis were a topic students grappled with in a course offered last fall by Simon Johnson, professor of entrepreneurship and global economics at Massachusetts Institute of Technology's Sloan School of Management. About 180 students weighed in on the crisis by posting on Johnson's blog at various points in the semester, and the discussion has continued there.

Some from outside the course have joined the discussion. A roaring debate last fall as to whether automakers should be bailed out helped convince Johnson that a loan was a good idea, he says. His site gets about 20,000 to 25,000 page views per day. One of its most popular pages is the section Financial Crisis for Beginners, which explains mortgage-backed securities, credit default swaps, and other technical terms in the news. Johnson says students—and others—appreciate the ongoing nature of this inquiry. The class really never stops because people can always log on and find answers to questions or state opinions as the news unfolds. "I have a big responsibility to help with the discussion and thinking, not just to prevent the next crisis but to help us get out of this one," says Johnson.

Spotlight on CEOs

For many professors and students taking part in business school debates, the causes of the crisis are both institutional and personal: absurd risk taking, irrational decision making, and CEO pay packages that encourage both. Lack of personal responsibility and ethical lapses on the part of top executives are two others that come up frequently.

In fact, if there is one positive to come out of this turmoil, it would be a healthy skepticism on the part of business students—MBAs and undergrads alike—concerning the motives and actions of CEOs, the people they aspire to be.

Chicago's Guy Turner says he understands that CEOs need to be paid well to make them significant shareholders who will act in the interest of shareholders, but he wonders how much is too much: "CEOs acted in the interest of shareholders with risky loans, but the problem was when you added it up across the whole economy, it fell apart."

While finger-pointing is easy, solutions are not. There seems to be general agreement that getting the nation's banks back on their feet is the key to resolving the crisis, but there's no broad agreement among professors or students about whether companies like American International Group or the Big Three automakers deserve bailouts, whether the stimulus package will work, and whether the country needs more or less regulation to prevent a further financial apocalypse.

Obama: a case study in change

The search for a solution is proceeding apace. At Northeastern College of Business in Boston, one student proposed a plan to have the government provide mortgage assistance to individuals for a period of two years, arguing that it would cost less than bailing out the banks while giving the markets time to recuperate. And at the University of Pennsylvania's Wharton School, research on the most effective way to stimulate the economy is finding that stimulus checks are less than ideal because families typically use the cash to pay off debt rather than make new purchases. Reducing payroll taxes paid by employers might better stimulate the economy by trimming payroll costs and making it easier for employers to create jobs, says Mauro Guillen, director of the Lauder Institute at Wharton.

As they struggle to make sense of the crisis, some professors are taking advantage of a teachable moment by using it to hammer home important management lessons. David Bowen, a professor of management at Thunderbird School of Global Management, is offering a course with Professor Caren Siehl on how to lead change, using President Barack Obama as a live case study. In the class, students learn an eight-step model of change by watching Obama—whose inauguration coincided with the semester's start—handle the economic crisis, from creating a shared sense of urgency to getting his stimulus package passed.

For business school students, the crisis exists in both the life of the mind and in real life. Many have been touched personally by the downturn, whether it's a stalled job search or troubles in the housing market. To calm their jittery nerves, business schools are pulling out all the stops.

Jobs are the biggest concern

At a recent town hall meeting at Darden, Dean Robert Bruner answered questions from students about how the crisis would affect them and their careers. His message, says Christine Bohle, a second-year student at Darden, was that students could continue to dream big about their careers but they might have to find more creative avenues for fulfilling their goals. Laura Pearson, a first-year MBA student at Darden, added that faculty are not sugar-coating the problems students will face. "It's been an honest discussion of what we're going through, how long it might last, the impact, and how to find solutions," she said.

Students, who may have invested more than $100,000 in their education, are most concerned about how long the crisis will last and how they will find jobs. With the economy shedding more than 650,000 positions in February, unemployment hitting a 25-year high of 8.1%, on-campus MBA recruiting taking a nosedive, and some of the biggest MBA employers on Wall Street having ceased to exist, they have good reason to worry.

Career services teams at business schools across the country geared up for this crisis in the fall. They sent S.O.S. messages to alumni asking them to provide leads for students currently seeking jobs, helped students retool their resumes, and shifted their strategies. Some schools are asking professors to help their finance students pursue careers outside of Wall Street. At the Villanova School of Business, John Kozup, associate professor of marketing and director of the Center for Marketing and Public Policy Research, created an undergraduate class that addressed the crisis in real time. Taught by 10 different professors and distinguished speakers from a variety of businesses, the course also has students learning about job opportunities in the public sector, one of the few areas where demand for MBAs is growing.

A memorable ethics lesson?

"One of the most valuable things I have gotten out of the bailout course is the notion that Washington, D.C. is the new New York City," writes Sameer Khosla, a senior at Villanova, in an e-mail. "Many of the speakers we have had so far in our class have strong ties to D.C. and have provided us with a wealth of information about a rapidly growing number of opportunities that are being created at places like the Federal Reserve and the Securities and Exchange Commission in an effort to help revamp the banking industry and put new and improved regulations in place to help prevent another financial disaster from occurring."

For students about to graduate, taking personal responsibility for worldwide economic calamity may be the most difficult and important lesson. It's already causing a great deal of soul-searching. Professors hope it's a lesson that sticks, and that this unfortunate chapter in the nation's economic history isn't soon repeated. "I hope students' memories aren't short," says Villanova's Kozup. "I hope they remember what happens if they allow ethical lapses to happen again."

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