

COLUMN

Lessons of the financial crisis

B-schools should develop leaders who understand their responsibilities



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The global disruptions caused by the recent (some would say, current) financial crisis have had an impact in every sector of the economy. The crisis has left few unaffected, creating personal misery and causing corporate collapse and government retrenchment. The lessons learned seem to have affected each of these groups as well, with individuals slowing or suspending their credit purchases and increasing their savings behaviours; companies focussing more on governance issues and risk management; and, in the US, the creation of new regulatory schemes and watchdog organisations.

To the extent that the global economy runs on business transactions, and that business transactions are often developed and executed by individuals trained in graduate schools of business, an important question is: What have B-schools learned from the financial crisis? And the equally important follow-on question is: How can we take what we've learned and improve the education of our MBAs? These questions have been the subject of a great deal of discussion among my faculty at the Yale School of Management. There are many answers to questions of this complexity, but I will offer two simple ideas that get at what I believe should be the aims of business education in the post-crisis era.

First, we must ensure that our students really understand the fundamentals of management, both in practice and in theory. In the current recession in which we observed large disruptions in the flow of capital, many of our ideas about business operations were disrupted. For example, many US banks ended up holding large pools of excess reserves rather than make loans. Many completely credit-worthy companies found it difficult, if not impossible, to borrow the funds that would have spurred growth and profits. On the other hand, for those who could borrow, interest rates were at record lows. New ideas about whether we should regulate the financial sector, and if so how, are all around us. Some of these ideas are based on sound financial analysis; others are schemes fuelled by political considerations.

In this complex and sometimes confusing environment, there is a real premium on the ability to think and to analyse, rather than to just engage in business as usual. The scholar Kurt Lewin, a pioneer in the field of social psychology, famously said, "There is nothing as practical as a good theory." In our ever-changing current economic

climate, the need for good theories and the need for managers to understand theory is greater than ever. At the same time, while a comfort level with the options and perspectives that a strong theoretical grounding provides is one crucial element of a manager's skill set, a true understanding of the practical tools that aid in good managerial decision-making is essential. B-schools must impart both the theoretical perspectives and the practical means that allow an MBA graduate to be both a 'thinker' and a 'doer' – to embrace complexity, assess options, and arrive at beneficial results.

My second recommendation focusses on the teaching of leadership. Three of my faculty colleagues recently published a compelling call to a rededication to leadership teaching (and the creation of MBA leaders) in *The Wall Street Journal*. The current crisis presented all of us with many hard lessons on the practice of leadership. Many firms – particularly financial firms – that had operated largely outside of strong public scrutiny for decades were overnight front page news. And many leaders of those organisations faltered under the harsh light of the press. They ended up learning the hard way some of the leadership lessons that top management schools have been teaching our students: be direct; admit your mistakes; tell us what you are going to do or, if you don't know, tell us how you plan to decide. In modern times, all leaders need to know more than how to lead their own internal staff; leaders need to know how to interface with the government and with the public and how to do so with transparency and integrity.

Some will argue that leadership is only an innate characteristic. Our colleagues in the fields of organisational behaviour, psychology and sociology have shown us that leadership can also be taught. B-schools have an obligation to nurture leadership talent in all their MBA students. Leadership can be learned in the classroom through exposure to theory and case studies. It can be developed through formally administered programmes such as Yale's required Leadership Development Programme, and even through a student's extracurricular work.

The financial crisis has caused disruption and misery for many. B-schools and their MBA graduates surely did not cause the crisis, but it is worthwhile for all of us to take stock of ways in which we may have contributed to – or perhaps ways in which we could have minimised – the crisis. ♦

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