

# Part 1 of an interview with Professor Mauro Guillen

Director of the Lauder Institute at The Wharton School. Interview by Nunzio Quacquarelli



**Taking the lead in the response to the financial crisis: How can business schools repair the damage done by the recession?**

## How is the Wharton School responding to the economic crisis?

Our responsibility is to train future leaders, providing both strong technical skills and an understanding of their ethical responsibilities. Amongst the leaders of many of the banks which have experienced financial difficulties were MBAs from top business schools who perhaps lost sight of these responsibilities in search of the short-term goal of increasing share price and shareholder value. Bad decisions were made. Risks were ignored. Business schools have a responsibility to help prevent this from happening again.

Several of our faculty are looking at executive compensation systems which have been misaligned. Senior bankers had short-term incentives to take leveraged bets on risky assets to increase their own bonuses and their company stock prices. The answer is not to limit CEO pay, but to realign incentives with the long-term performance of the company.

We are also reviewing corporate governance and the role of the board within companies. It is now clear that boards have been largely ineffective because they had restricted access to information and they were also under pressure to support CEO initiatives which boosted short-term shareholder value. There are no simple solutions, but this is a crucial area for change.

Regulation will be imposed on many aspects of financial services in the future and we have many experts on our faculty, such as Olivia Mitchell, who is an expert on pension fund reform and regulation, and Bulent Gultekin, who was Governor of the Bank of Turkey and advises central banks.

Finally, in October 2008, I initiated a for-credit class focused on the financial crisis. When Lehman Brothers collapsed, we realised that students would need a grasp of the causes and potential solutions to the crisis.

Over 260 students have signed up for the class, which is delivered by a team of faculty from diverse disciplines. They will leave the class equipped to understand the issues and implications of the crisis as well as having a better understanding of the social responsibilities of leaders in the modern financial sector.

### **How is the current recession affecting business schools?**

The current recession is stimulating more applications in the short term, as people lose their jobs and look to take an [MBA](#). But business schools are not immune, and, if the recession continues, then typically after a year or so this demand spike will plateau and even begin to fall.

Employment demand for MBAs has been affected, especially in financial services. However, it is interesting that, unlike previous recessions, demand for MBAs to join the consulting industry is strong. Consulting firms are being called in to conduct restructuring and strategic realignment work, and this is fuelling continued recruitment. And there will always be a strong financial services industry in New York and London, so I believe recruiting in this sector will resume sooner than many expect.

For the next year or two, MBA graduates will face a difficult employment market and will have to be very flexible in terms of their employment choices and salary expectations. When economies around the world begin to improve, I am confident the employment outlook for MBAs will quickly improve.

Is the US model of the [MBA](#) being called into question by the current economic crisis?

The MBA qualification has been in existence for almost 100 years, but it is only really in the last 20 years that it has become established outside the US. Companies around the world now look to MBAs to help them compete in the global marketplace and to provide people with the cultural understanding to do business in diverse markets. I have no doubt that postgraduate business education will continue to grow.

US business schools are no longer the dominant force in [MBA](#) education, with real alternatives available in Europe and more recently in Asia. Candidates are choosing between one and two-year programs and between classroom-based versus experiential learning formats.