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Will Business Schools Learn from Wall Street's Crisis?

By Laura Fitzpatrick

Even as [the carnage at Lehman Brothers](#) left thousands of employees stranded, the next generation of Wall Street hopefuls began filing back to class this month at business schools across the country. The storied banking giant's demise was an illustrative lesson for the industry and for academics — one that may lead to lasting changes in business-school curriculums. "I predict that people will spend a lot more time than they used to learning about risk management and understanding the subtleties," says Awi Federgruen, chair of the Decision, Risk and Operations Division at Columbia Business School.

For more than half a century, business schools have taught the fundamentals of risk management — the study of policies and procedures to analyze and control risk — but the availability of more comprehensive electives is a relatively recent development, a direct response to the faltering U.S. financial markets. Enrollment in the University of Mississippi's risk-management-and-insurance program, one of the oldest in the country, jumped to 130 students in 2007, up from just 19 in 1995. And the number of U.S. business schools offering a concentration in risk management nearly doubled between 2005 and 2007, according to the Association to Advance Collegiate Schools of Business, while degrees in risk management are increasingly being offered at business schools around the globe.

"Maybe this [crisis] will force a number of the business schools, including our own, to rethink whether we should make this part of the complete requirements," says Federgruen, referring to in-depth risk-management coursework, "rather than just counting on the students themselves to understand that this is material that they'd better learn."

Other experts think b-schools should go even further, by not only increasing the number of courses they offer but also revising their syllabi, which currently focus heavily on mathematical modeling (a forecasting technique that uses historical data and assumptions).

"People shouldn't bury themselves in the mathematics, because the mathematics are only tools," says Kenneth Froot, a professor at Harvard Business School who teaches courses in risk management. "One needs to have a wide and robust vocabulary to talk about risk, simply because no single mathematical formula is going to capture all of what risk is."

One way to make better use of mathematical modeling, some educators say, is simply to devise better models — specifically, models that are capable of accounting for seismic, unexpected and not easily explainable shifts in the market. In recent years, "prices have behaved in a way that no one has ever really seen before," Froot says. "You don't want to rely on models that just use historical information in prices ... It's probably possible to come up with better measures of risk in real time."

Olivia Mitchell, chair of the Insurance and Risk Management Department at the Wharton School of business, agrees. "I wouldn't say we'll put any of the modelers or mathematicians out of a job," she says, but still, "every time there's a shift in the landscape, we realize we have to enrich the models, make them more complete, more complex, and bring in some of the richness that the real world can throw at us." Indeed, on Sept. 16, at the request of students, Wharton faculty held a "teach-in" to examine the current financial crisis in the wider context of risk management, among other topics.

Of course, better models won't work unless people learn how to use them. McKinsey directors Ron Hulme and Kevin Buehler and senior risk expert Andrew Freeman argue in the *Harvard Business Review* this month that "a growing emphasis on mathematical modeling has rendered much of the risk-management debate and research incomprehensible to those outside the finance function and the financial services industry." The upshot, they say, is that corporate managers who aren't already experts at risk aren't prepared to factor it into their decisions.

On the other hand, says Peter Morici, a professor of international business at the University of Maryland, finance concentrators — that is, the students who are specially trained to grasp the models — are so steeped in the particulars that they don't always see the forest for the trees. They get the math, but they don't pay attention to systemic issues within the broader economy; it's a by-product of degree programs that encourage students to take a narrow focus too early on in their studies. "In medicine you become a doctor first, and then you become a specialist," Morici says. "In finance, you just become a specialist."

The obvious solution is to teach risk management integrated with education in macroeconomic issues, corporate culture and human factors, says Mitchell, and to make sure that more of those lessons reach more people within every company. "It used to be that risk management was off in some backwater or some broom closet in the company," Mitchell says. "We all think of ourselves as risk managers now."

Ultimately, however, skeptics say changes in the classroom won't translate to an equal shift in the way real-world business operates. Morici says that Wall Street's compensation structure rewards risky business, and that's at the heart of the problem. "Until the banks are

compelled to reform their business practices, training and risk management and ethics at the business-school level isn't going to make a difference," he says. "The business schools train what the banks want."

[\(See the winners and losers of the Wall Street mess here.\)](#)

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