Ericsson’s Carl-Henric Svanberg: On Complexity and Connectivity

Can Cell Phones Change the Business World?

The Economic Crisis: Teaching in Times of Turmoil
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Can You Hear Me Now?

Has this ever happened to you? You’re out with a group of faculty, debating the merits of recent business books, and you can’t remember the name of one of the authors. The next time it happens, pull out your cell phone and send a text message to 242242, asking, “Who wrote Who Moved My Cheese?” Within a few minutes, you’ll receive a reply informing you that the author is Spencer Johnson.

Of course, you can pose any other question you like and get a quick response from the text message service run by ChaCha.com, which employs part-time workers to research and answer inquiries around the clock. It’s a fun, simple, and surprisingly useful application for the ubiquitous cell phone, but it also serves to underscore the fact that today’s cell phones are remarkable devices that allow people to stay connected and collect data. In fact, there’s mounting evidence that cell phones are changing the way people live, learn, do business, and even think—which makes them fascinating tools that need to be examined, understood, and employed in the business school classroom.

I’m not one of those people who can’t function unless there’s an iPhone within reach. I have 4,000 rollover minutes available to me on my current cell phone plan, and I didn’t learn how to send an SMS until about six months ago. But even I was impressed by some of the innovative cell phone applications I learned about as I researched “Dial M for Mobile” for this issue. A few of them are detailed in the sidebar to the story that begins on page 32.

Professors who would love to ban phones from the classroom might find themselves, instead, designing quizzes and class projects that take advantage of these versatile devices. When the same relatively inexpensive piece of technology allows students to collaborate on projects with other team members, listen to podcasts of missed lectures, and receive course alerts about rescheduled classes, you know it promises to play a major role in the future of education.

Cell phones might have an even more important role in the future of business, which is another reason for management educators to pay attention to their potential. Consumers already use cell phones to watch movies and listen to music, making these devices alluring to the powerful entertainment industry. Technology currently available in some parts of the world allows consumers to use cell phones like credit cards to purchase goods they’ve already researched online through their cell phone browsers.

Mobile devices can also aid in the fight against poverty. For this issue, we spoke to Ericsson’s CEO Carl-Henric Svanberg, who is a great believer in the power of cell phones to bridge the digital divide. Last October, he addressed the U.N. General Assembly to discuss how cell phones might help the organization reach its Millennium Development Goals. Cell phones enable health workers in rural areas to receive medical training, he notes; they allow teachers in remote villages to access Google in the classroom. Cell phones literally can change the world.

So it’s hardly a surprise that a cell phone can help you teach a class or settle a trivia question. I mean, what famous economist was born on July 31? Do you know? Got a cell phone?

Sharon Shim
Aspen Institute Honors Faculty Pioneers

MBA faculty members who do an outstanding job of integrating social and environmental issues into research and teaching were honored last November by the Aspen Institute Center for Business Education, a program of the Aspen Institute Business and Society Program. The 2009 Faculty Pioneer Awards were given out at a reception at Ernst & Young’s corporate headquarters in New York City.

Pratima Bansal of the Richard Ivey School of Business at the University of Western Ontario in London, Ontario, won the award for Academic Leadership. Simon S.M. Ho of the School of Business at the Hong Kong Baptist University won the award for External Impact, and Nicole Woolsey Biggart of the Graduate School of Management at the University of California, Davis, won the award for Institutional Impact.

David W. Hess of the Ross School of Business at the University of Michigan in Ann Arbor was named the 2008 Rising Star, and David Baron of the Stanford Graduate School of Business in California received a Lifetime Achievement Award. James E. Austin of Harvard Business School in Cambridge, Massachusetts, received the award for Social Entrepreneurship Education, given in partnership with Ashoka, a global association of social entrepreneurs.

The 2008 European Faculty Pioneer Awards, given in conjunction with the European Academy of Business in Society (EABIS), were presented in September at the University of Cranfield in the U.K. Antonio Argandona of the IESE Business School at the University of Navarra in Barcelona, Spain, received the Lifetime Achievement Award; and Wendy Chapple of Nottingham University Business School in the U.K. was named the 2008 Rising Star.

Alumnus Gives $300M to Chicago GSB

The University of Chicago Graduate School of Business has received a $300 million gift from entrepreneur David G. Booth, founder of investment firm Dimensional Fund Advisors, and his wife, Suzanne. The gift is the largest donation in the university’s history. In recognition of the gift, the school will be renamed the Chicago Booth School of Business.

“The very first course I took at the University of Chicago was taught by Eugene Fama, and it was a life-changing event for me,” says Booth. Fama, the Robert A. McCormick Distinguished Service Professor of Finance, is the founder of the efficient market hypothesis, which says investors in stocks should not be able to beat the market since there is no way for them to know something about a stock that is not already reflected in the stock’s price.

The school plans to use the money for several new initiatives, including attracting top faculty, developing new faculty groups in nontraditional academic areas, and expanding existing research centers.

Bentley Students Give Time and Money

Two recent initiatives at Bentley University in Waltham, Massachusetts, are aimed at getting students more involved in
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good causes, both in the local Boston community and around the world.

An honors finance class has spearheaded the creation of a domestic microcredit organization that will provide loans of $1,500 to $6,000 to local entrepreneurs near the poverty level. The Bentley Microcredit Initiative (BMI) resulted from a microlending seminar that debuted last spring. The seminar was led by finance professor Roy Wiggins, who has become director of BMI.

Bentley also has joined with youth service organization City Year to encourage students to give a year of national service before entering the job market. The partnership will provide students with $1 million in scholarship support, as well as internship opportunities with global organizations.

Valparaiso Joins Sustainability Initiative

Valparaiso University in Indiana has become the third institution of higher education in the U.S. and fourth in the world invited to participate in the Global Reporting Initiative’s Matchmaker program. The initiative connects corporations with professors and students studying sustainable business practices.

GRI provides guidelines that are used by Fortune 1000 companies to report their economic, environmental, and social performance achievements and deficits. Through the Matchmaker program, universities critique the reports of both the company and an independent engineering or financial auditor.

Other schools participating in the Matchmaker initiative, which was launched in 2007, are Harvard, Georgetown, Boise State, and the University of Calgary. More information is available at globalreporting.org/matchmaker.

Quinnipiac Launches Mentoring Program

The Disney and ESPN Media Networks have joined with Quinnipiac University in Hamden, Connecticut, to create a mentoring program for students of diverse backgrounds. The initiative, which launched last fall, partnered seven sales and marketing employees with juniors and seniors from Quinnipiac’s ALANA (Asian, Latino, African and Native American) program. Mentors will provide a forum for students to ask questions, learn about real-world issues and receive advice for achieving life goals. ESPN plans to use this pilot program as a jumping-off point to expand to other colleges and universities in the future.

Students will meet with their mentors at least twice per semester, in addition to communicating regularly by e-mail and phone. Mentors will invite students to ESPN offices in Bristol to learn about a real-world working environment. Mentors also will serve as advisors, providing feedback on resumes and cover letters and conducting mock interviews with students to prepare them for internships and jobs. Students who complete a successful mentorship program are eligible to apply for ESPN’s annual internship program for students interested in marketing, sales, or media.

From left to right are Tyrone Black, Quinnipiac University director of multicultural affairs; Mera Beckford, assistant student coordinator of the ALANA mentoring program; Matthew Ottulich, head student coordinator of the ALANA program; and Justin Connolly, senior vice president of national accounts for Disney/ESPN Media Networks, affiliate sales and marketing.
NEW APPOINTMENTS

Michael Goldstein, a finance professor at Babson College in Wellesley, Massachusetts, has been named to the Economic Advisory Board of the Financial Industry Regulatory Authority (FINRA).

Two new faculty members have joined Georgia Tech College of Management in Atlanta. Ajay Kohli has been named professor of marketing and Gary T. and Elizabeth R. Jones Chair holder; Vikram Nanda has joined as professor of finance and Russell and Nancy McDonough Chair holder.

The Wharton School of the University of Pennsylvania in Philadelphia has named marketing professor Z. John Zhang the inaugural holder of the Murrel J. Ades Professorship. The position was endowed through a $2 million gift from Robert A. Ades.

Alex Kondra has been appointed executive director of the Centre for Innovative Management at Athabasca University in Alberta, Canada. The center is the home of the school’s online executive MBA.

Robert Meyer has joined the University of Miami School of Business Administration in Coral Gables, Florida, as the Warren Johnson Chair, professor of marketing. The chair was endowed by a $2 million estate gift from the late Warren Johnson.

Gary Sanger has been elected vice president for the 2009 Program of the Southern Finance Association. Sanger is distinguished professor of finance in the E.J. Ourso College of Business at Louisiana State University in Baton Rouge and director of the college’s Securities Markets Analysis Research Training Lab.

NEW PROGRAMS

Grenoble Graduate School of Business in France will launch an MSc in Management Consulting starting September 2009. Students will develop expertise diagnosing problems and formulating creative solutions during international consulting assignments.

The George Washington University School of Business has designed two new MBA programs highlighting globalization and corporate responsibility. The Global MBA Program, which launched last fall, incorporates themes of ethics, leadership, and globalization throughout the curriculum and requires an international practicum and residency. Also this fall, the school launched the World Executive MBA, which exposes students to business practices of economics in both developed and developing regions. The one-year program will include three-week residencies in China, India, European countries, and Washington, D.C.

The Yale School of Management in New Haven, Connecticut, is now offering the Pre-MBA Leadership Program for promising college undergraduates of color and recent college graduates. The program will focus on developing individual leadership skills and will be taught by Yale SOM faculty. Participants will learn business fundamentals in data analysis, economics, accounting, finance, marketing, and strategy, while also developing a sense of their own values.

GISMA Business School in Hannover, Germany, is launching a new MBA program in August. The Young Professional MBA is a weekend program tailored to working executives at companies in North Germany. The two-year program includes a weeklong residency at Purdue University in Indiana.

Former United States Senate Majority Leader and transplant surgeon Bill Frist will lead a new initiative at Vanderbilt University’s Owen Graduate School of Management in Nashville, Tennessee. The new class will allow a combined group of business students and fourth-year medical students to examine issues related to the financing, delivery, and quality of healthcare.

Starting this fall, the College of Business Administration at San Diego State University in California will offer
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SHORT TAKES

an MBA for Executives in Life Sciences. The program is designed to provide students with the tools they need to get stem cell technologies and other bio-tech products from concept to commercialization.

The Reims Management School Group in France has formalized a new strategic plan that will allow it to offer students “tailor-made” education. The Energies 2014 strategy, designed to be implemented over five years, will be accompanied by a new visual identity and brand. For the 2008–2009 academic year, RMS has set up four new vocational courses in nonprofit management, luxury product management, distribution management, and banking and insurance services management.

DePaul University in Chicago, Illinois, has established the School of Hospitality Leadership with the aid of a $7.5 million gift from the Conrad N. Hilton Foundation. The school, which will be based in DePaul’s College of Commerce, will offer a bachelor’s degree in hospitality leadership beginning this fall. In addition, DePaul’s Kellstadt Graduate School of Business has launched a new master’s degree in economics and policy analysis. Students will have a chance to work for members of the Illinois Congressional delegation on Capitol Hill to gain practical experience in economic analysis.

Collaborations

ESSEC Business School in Paris has crafted a joint MBA program with Keio Business School in Tokyo. The program, which launches in September 2009, will explore management issues from the perspectives of both cultures.

Quinnipiac University in Hamden, Connecticut, has expanded the international studies program in its School of Business through several initiatives aimed at creating ties with Hungary. The new Hungarian-American Business Leaders scholarship program, part of a three-year MBA track, offers top Hungarian students extensive practical experience working within American companies. A related program, the Hungarians Beyond the Border
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Scholarship, recruits Hungary’s ethnic citizens who live in regions surrounding the country.

The University of California in San Diego and the Chinese Ministry of Education have signed an agreement to train student affairs officers from universities throughout China. The first 33 Chinese students traveled to San Diego last fall for 13 weeks of instruction.

Six schools have won awards in the 2008 competition sponsored by the Global Consortium of Entrepreneurship Centers. Wake Forest University in Winston-Salem, North Carolina, received two honors: the GCEC Award for Excellence in Entrepreneurship Teaching and Pedagogical Innovations, and the GCEC Award for Exceptional Activities in Entrepreneurship Across the Disciplines. Other awards went to the University of North Carolina-Chapel Hill for Excellence in Specialty Entrepreneurship Education; Baruch College in New York City for Exceptional Contribution in Entrepreneurship Research; and Boston University in Massachusetts and Wichita State University in Kansas for Outstanding Contributions to Advance the Discipline of Entrepreneurship. The University of Arizona in Tucson won the NASDAQ Award.

GIFTS, DONATIONS, AND FUND RAISING

Babson College of Wellesley, Massachusetts, has received a $10.8 million gift from the Lewis Charitable Foundation for the establishment of an institute to support teaching, research, and outreach in social entrepreneurship.

Louis and Barbara Perlmutter have given $5 million to the International Business School at Brandeis University in Waltham, Massachusetts. The money will establish the Perlmutter Institute for Global Business Leadership.

UCLA’s Anderson School of Management in California has kicked off a $100 million campaign to fund the school’s strategic priorities. The campaign, which has already raised $46 million, will conclude in 2010, the year of the school’s 75th anniversary. Among the contributors so far are Larry Fink, chairman and CEO of BlackRock Inc., and his wife, Lori, who committed $10 million to endow the Laurence and Lori Fink Center for Finance & Investments.

Thunderbird School of Global Management in Glendale, Arizona, has launched the public phase of a $65 million campaign. In its quiet phase, the campaign has raised more than $42 million in total commitments from alumni and members of the board of trustees, including Francis Najafi, Dick Devos, Scott Walker, Craig Barrett, Jerry and Rachele Nichols, Ken Seward, and David and Joan Lincoln.

The University of Toronto’s Rotman School of Management in Ontario has announced a five-year, $200-million fund-raising campaign. The Government of Ontario has committed $50 million toward the construction of a new facility, as well as $10 million to support the school’s expansion. The school has already received a $10 million gift from Marcel Desautels, president and CEO of the Canadian Credit Management Foundation; and $3 million from Lee Lau, founder of ATI Technologies, and his wife, Margaret Lau. The school also has received $3 million from the friends and family...
SHORT TAKES

of Anthony S. Fell to establish an endowed chair in Fell’s name.

OTHER NEWS

- The University of Minnesota in Duluth held a grand opening ceremony last fall for the new $23 million Labovitz School of Business and Economics. The school is named for Sharon and Joel Labovitz, who made a gift of $4.5 million for the new building and paved the way for legislative state funding.

- Boston University in Massachusetts has established the Institute for Global Work (IGW) with a $1.7 million gift from the Keane Foundation. IGW will design education and certification programs for executives, managers, vendors, service professionals, consultants, and analysts involved in high-performance global work teams. The school also has established the Institute for Nonprofit Management and Leadership, with major funding provided by The Boston Foundation.

- The Royal Institution of Chartered Surveyors (RICS) has accredited the ESSEC MBA Real Estate Track. The accreditation enables employed ESSEC graduates to enroll as trainees at RICS and to become members of the Institution of Chartered Surveyors.

- Last fall, two small businesses received seed capital through the newly established Profeta Urban Investment Foundation, a private, not-for-profit equity fund managed by Rutgers Business School in Newark, New Jersey. Each entrepreneur who receives Profeta Foundation funds also will receive advice and counseling from teams of Rutgers MBA students.

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Ericsson CEO Carl-Henric Svanberg believes that connectivity may be the answer to many of the world’s biggest problems. Business students must be prepared, he says, to make essential global connections happen.

For Carl-Henric Svanberg, big problems are reasons to be excited, not intimidated. Whether it’s tackling the challenges of the global telecommunications industry or finding ways to connect remote African villages to the informational grid, Svanberg does not shy away from complexity.

And neither should business students, says the CEO of telecom giant Ericsson, based in Stockholm, Sweden. An aim of business education, he says, should be to instill in students the confidence that they can solve even the most intractable problems. Svanberg developed this trait himself as he pursued his bachelor’s degree in engineering at Sweden’s Linköping Institute. “The study of applied physics gives you the self-confidence to know that you can understand the most complex matters,” he says, “even if you have to work at them.”

After graduating from Linköping, Svanberg joined engineering export firm Asea (which later became Asea Brown Boveri), where he became a manager by age 28. He then attended business school at Sweden’s Uppsala University, earning his bachelor’s in business administration. “My business education was hands-on and very useful,” Svanberg says. “I appreciated how well it related to what I worked on every day, whether it was general accounting, macroeconomics, foreign trade, hedging policies, or foreign currencies.”
Svanberg moved into the C-suite in 1994, when he became the president and CEO of lock-making company Assa Abloy. He stepped in as CEO of Ericsson in 2003, just after the telecom giant had suffered layoffs and losses. Over the last five years, Svanberg has improved the efficiency of the company’s operations, and it soon returned to profitability. Today, Ericsson is the world’s largest maker of wireless network technology, with slightly more than 40 percent of the market.

The recent economic downturn, however, means that there’s more work to do, says Svanberg. He believes that for the global economy to prosper, industry must work to connect the citizens of developing nations to the communication grid. One way to make this happen, he argues, is through the simple mobile phone. Inexpensive, portable, and easy to use, cell phones can serve as lifelines for otherwise isolated villages in Africa and other developing regions. With this in mind, Ericsson has partnered with the United Nations to help the organization achieve its Millennium Development Goals by 2015. The company also works with the Earth Institute at New York City’s Columbia University on its Refugee Connectivity Project, an effort to connect small villages in Africa to the communications grid.

In his recent remarks to the United Nations General Assembly in October, Svanberg emphasized how important the development of communication technologies will be to the growth of emerging economies. “Access to mobile communication is not only transforming lives, but it is breaking down barriers of isolation between people and cultures, one of the key defining aspects of poverty,” he said. The more mobile telephony penetrates the world’s poorest countries, he added, the more their GDPs will rise. Ericsson forecasts that, globally, there will be 6.5 billion mobile subscriptions—and more than 2.5 billion broadband subscriptions—by 2013.

The upcoming generation of tech-savvy business students, born squarely in the middle of the Internet Age, will be among those who make the vision of an all-connected world a reality, says Svanberg. But to imagine big ideas and solve big problems, these future leaders can’t just be comfortable with complexity—they must delve into it with passion. With their expertise, Svanberg says, everyone in the world might be connected, uplifted, and engaged with the global economy much sooner than we think.

Why was it important for Ericsson to become so involved with the United Nations’ Millennium Development Goals, the Earth Institute, and the Refugee Connectivity Project?

Usually, it’s most logical for an operator-carrier to start developing telephony in large cities and expand out to rural or poorer areas. But we were interested to see what could happen if we brought connectivity directly to the residents of African villages, where the ability to communicate can be so critical. We’re finding that traffic is accelerating in these networks, which means that these efforts also make business sense for us.

What do you hope these projects will ultimately accomplish?

We work within the telecom industry, so I hope I don’t sound too biased, but I think that mobile telephony is probably one of the most important, if not the most important, piece of the puzzle when it comes to developing emerging markets. It drives growth. Research shows that for every 10 percent of people in a country’s population with access to mobile telephony, that country’s GDP increases by .6 percent. Theoretically, if we can provide half the country’s citizens with mobile phones, the country’s annual growth would accelerate by 3 percent.

Mobile phones immediately connect people. With a cell phone, a fisherman can call or send a simple SMS to find the best market for his catch; a farmer can find the best market for his livestock. He doesn’t have to walk for three or four days to see if the market is good. Through mobile phones, students have access to e-learning. Village health workers can call other doctors to access medical expertise. Mobile telephony makes their work much easier.

I’ve read that Ericsson also is working to make its technology more sustainable—through the use of solar power and other alternative energies—and accessible to consumers in remote areas.

In developing areas, where there’s no grid nearby, companies must bring power in through a diesel engine. The biggest single cost for a mobile phone company is to pay for the diesel fuel that runs its generators, which provide electricity to run and cool the equipment. We have worked very hard to decrease the energy consumption of the equipment, and today’s technologies use 80 percent less energy than the technologies of five years ago. We’re also adding wind and solar power, so we can work to take these technologies completely off the grid.

We know that the phone itself has to be charged at the user’s own cost every day. So we’re also providing solar chargers for mobile phones. With solar power, users can keep their phones charged more cost effectively.
Welcome the ‘Digital Natives’

In March 2008, telecommunications company Ericsson partnered with the Boston University School of Management in Massachusetts to host the third annual International Tech Strategy Business Case Competition. The competition highlighted trends in the telecommunications industry and primarily involved young MBAs in their mid-20s. Ericsson calls these students the “digital natives”—the first generation that has never known a world without cell phones, PDAs, and laptops.

The competition included student teams from 16 business schools: Boston University, EGADE Tecnológico de Monterrey, Mexico; Eller College of Management at the University of Arizona, Tucson; Harvard Business School in Cambridge, Massachusetts; Hong Kong University of Science and Technology; IESE Business School at the University of Navarra in Barcelona, Spain; Indian Institute of Management, Calcutta; the Kellogg School of Management at Northwestern University in Evanston, Illinois; the Kenan-Flagler Business School at the University of North Carolina, Chapel Hill; London Business School in the United Kingdom; the McCombs School of Business at the University of Texas at Austin; Queens School of Business in Ontario, Canada; Seoul National University, Korea; Sloan School of Management at the Massachusetts Institute of Technology in Cambridge; Stanford Graduate School of Business in California; and Stockholm School of Economics in Sweden.

The case focused on Ericsson and its work with Vodafone, a global mobile communications company headquartered in the U.K. Vodafone recently selected Ericsson to become its primary hardware vendor in Australia, where it’s rolling out a national mobile broadband network, and to handle parts distribution in Europe. At the competition, student teams argued that the two companies could work together to take advantage of the pace at which multimedia is converging.

Students from Stanford, who took first prize, developed a plan for the two companies to deliver television programming, multimedia, and targeted advertising to consumers via cell phones. The second-place team from Kenan-Flagler recommended that Ericsson and Vodafone create a “whole life network,” which would provide users with anytime-anywhere access to content related to their entertainment, work, travel, and personal activities. The students noted that, to create new business opportunities and to shape how people live and work, Ericsson and Vodafone would need to find partners who could help them increase bandwidth, create new mobile advertising approaches, design richer content, and develop more robust mobile devices. Student teams also found that the companies would need to focus equal attention on developed and developing nations to achieve their goals.

This March, Ericsson will sponsor the fourth annual International Tech Strategy Business Case Competition. Ericsson’s CFO Hans Vestberg, who attended last year’s event, notes how important the competition’s participants and their contemporaries will be to the global talent pool, as more companies seek to hire people who can put new technologies to work.

“These MBA students have been raised during the excitement and explosion of an all-communicating mobile and Internet-enabled world,” Vestberg says. “Their minds are the minds that have invented the language we use to describe a connected lifestyle and the same minds that will lead us into the future.”
Ericsson recently sponsored and participated in a competition at Boston University that invited young business students in their 20s—the “digital natives”—to create next-generation strategies for telecom companies. Why are these students so important to Ericsson’s future business plans?

These students are always “on.” They spend more of their time in front of the computer or the television. They multi-task in ways the older generation doesn’t do. My own kids can watch a movie, send an SMS, and work on their laptops at the same time, and they can still enjoy it all—I have to do one thing at a time! The “digital natives” are looking for technology that’s immediate, intuitive, and easy to use.

The younger generation naturally thinks about things as they are. They can approach any new application with no fear, because they have no legacy. When we grow older, we have our legacies. We’re always nervous to start something new in case something goes wrong.

What do you expect business graduates to know before they come to work at Ericsson?

For students to succeed with us, it’s important that they have a basic knowledge of language, mathematics, and physics skills. They’ll find it difficult to get even the most innovative idea accepted if they can’t speak or write in a clear, concise, and consistent way.

They’ll also need a technological background. Ericsson employs a workforce of more than 70,000 people, and half of those employees have academic degrees. Of those, the majority have master of science degrees.

Finally, they have to have the right attitudes and the ability to think differently and be innovative. Students will need to pursue projects and coursework where they can get a broad sense of the complexities of business. They’ll need to hone their skills, imagination, and ability to think about the structure of a problem and its solutions—that represents business training at its best.

The younger generation naturally thinks about things as they are. They can approach any new application with no fear, because they have no legacy.
Where do you think the telecom industry might be in five or ten years?
It’s so dynamic. Ten years ago, we didn’t know about a company called Google. Three years ago, we didn’t know about YouTube. Two years ago, we didn’t know about Facebook. So, we really don’t know where things will be in five or ten years. For business students, then, preparing for that future will be more about having the ability to cope with change and being ready to spot new opportunities. That comes back to personality, attitudes, capability, and a thorough, basic education that can give them self-confidence and the ability to face the unexpected.

Speaking of the unexpected, the global economy has put everyone on a rollercoaster ride—the telecom industry has been no exception. When you look ahead to the next few years, what most concerns you?
At Ericsson, we aren’t immediately affected by the global financial crisis. However, as the economic downturn spreads to the consumer, we could be affected. We also have growing competition coming out of Asia. That’s been a fact of life for us for the last 100 years. There are always new competitive threats coming up.

To face these threats successfully, we must spearhead technological development. It’s critical that we understand where vendors are in their thinking and where consumers are in their preferences. We have to make sure we have what is needed to be a great partner.

You mention consumer preferences. How do consumer preferences for mobile technology vary from market to market? Does Ericsson approach the technology and its use differently in Asia than it does in Europe or North America?
Some differences are striking. In Japan, for instance, everybody has a mobile phone, but not everybody has a computer. In the U.S., everybody has a computer, but fewer people rely solely on their mobile phones. The U.S. is more computer-centric, while other countries are more mobile-centric.

In countries like India and Africa, the majority of people may not have the financial capabilities to own a computer, so they will be looking for simpler mobile phone service. But even so, they won’t be satisfied with voice communication only, as citizens of developed countries often are. In the developing world, people view the mobile phone as the only tool that can bring them the Internet.

But all in all, consumers everywhere are more similar than you might think. Everyone is looking for the same thing: They want to communicate without a wire, have access to the Internet, and be able to reach anybody at any time.

What so far has been the most difficult aspect of your job as CEO of Ericsson?
In a company this big, you can’t just tell everyone, “Turn left and work fast.” You have to share with them the vision you want to accomplish and get everybody on board and enthusiastic about it. When you can get them to march in the same direction, you can really move mountains together. That part is really inspiring, but it’s also very demanding.

In addition, the complexity of what we do is probably the biggest challenge. We must create fast-moving technology for fast-moving customers in a fast-moving business. There is always a risk of becoming too tech-centric, too absorbed in the technology. Years ago, for example, we ran the company with an inside-out mentality, where we developed technologies and innovations and sent them to the market. Today, we’re very much driving the company from the outside in—we have to follow consumers to understand what they want and develop advancements accordingly. It’s important for me to spend as much time as I can with customers and with people who are very close to the market, so I can make sure that we’re heading in the right direction.

What would you most like to see from business schools?
Business schools should take note that China is now where the U.S. and Europe were 50 years ago when we were building our societies and our infrastructure. We were training people to become engineers and study schematics and technology. Today, the four top leaders in China have master of science degrees.

In Europe and the U.S., we now often take our infrastructures for granted. Fewer young people are interested in studying science in school. That’s sad, because nothing is more fun than a career in science and technology. It connects you with so many people, in technology and management and marketing. In telecommunications, for instance, if you have a scientific background, you can do almost anything you like. It’s an absolutely fascinating world.

So, you’d like business schools to get more young people interested in technology early on?
Absolutely!
Crisis and Consequence

The subprime mortgage market has a meltdown. Bear Stearns collapses. Lehman Brothers fails. The U.S. government loans billions of dollars to AIG—and then makes that sum look paltry by crafting a $700 billion bailout plan for the banking industry. Many financial neophytes learn for the first time about the London Interbank Offered Rate and how LIBOR affects everything from their mortgages to their business loans. The Dow Jones plummets, soars, and plunges again. Around the world, the Nikkei, the FTSE 100, and the DAX tumble and recover and slump again.

These are perilous times for everyone, from the C-suite banking executive to the teller at the local branch, from major stockholders with millions invested to ordinary citizens with a few thousand dollars in a 401(k), from small-town politicians to presidents and prime ministers. Colleges and universities are not immune from the ill effects of a troubled economy, but business schools can perceive one bright spot in the cloudy forecast. The economic crisis offers a fascinating real-life, real-time case study that teaches students how the market is supposed to work—and what happens when it doesn’t.

As the global financial markets go on a wild ride, politicians and economists scramble to put together rescue plans. Will they work? And what can b-school students learn by dissecting the crisis as it unfolds?
In the following pages, three finance professors from the U.S., Europe, and China offer their insights into the current situation and what they think might happen next. They also share their thoughts on how the crisis will affect business school students who are not only learning the industry, but also looking for jobs in an uncertain economy. Their views are complemented by the frank “Your Turn” on page 60, in which a former finance professor addresses all the students who passed through her classes and are now professionals in the banking world.

Their consensus? Today’s financial situation is not unique; the banking world has suffered disasters in the past and undoubtedly will undergo them again in the future. The best hope for tomorrow’s financial leaders is to study the mistakes that were made this time and figure out ways to mitigate the next disaster that surely lies ahead.

**Preventing for the Worst**

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One of my colleagues recently noted that the Western banking world goes through a crisis every ten to 15 years. While we’re living through an event like the current one, it seems to be disproportionately acute, but these situations have happened before and they’ll happen again. I don’t believe that boom-and-bust cycles can be eliminated—but I do believe they can be attenuated.

We need to think about ways to regulate the banking system so we can prevent these sudden and deep shortfalls, even if the crises never disappear entirely. And we need to consider what business schools can do to prepare the next generation of financial officers to handle the emergencies of the future.

**Planning Ahead**

One measure I favor is called “pro-cyclical provisioning.” Under this plan, financial institutions set aside funds during boom cycles so they have resources on hand when the next bust occurs. Some of the provisioning would take place at the level of individual banks, so they could draw on their own funds during a localized crisis. Some would take place at the industry level with a centralized global insurance fund that would support international institutions that did not have enough money to weather a global catastrophe.

Such a plan would follow the model of the U.S.’s Federal Deposit Insurance Corporation, which insures individuals’ deposits up to $100,000—a limit that has been temporarily raised to $250,000 through December 31, 2009. One of the hallmarks of the current crisis is that depositors have remained calm; they haven’t made a run on the banks. That’s because depositors know there’s a mechanism in place to prevent disaster, and they know the fundamental banking system is still solid. Pro-cyclical provisioning would create an analogous system at the industry level that would protect the owners and shareholders of a bank.

Because we know it’s only a matter of time before the next banking crisis occurs, we must consider what we can do now to ensure that future events are less dramatic. Perhaps banks can work together to establish pro-cyclical provisioning, or perhaps the government should promote the idea through tax incentives or legislation.

One lesson I hope we have learned from recent events is that no country is isolated from a major crisis, particularly one that originates in the U.S. The very nature of banking is that it facilitates trade; as nations become more connected to each other through trade, so do banks. We can’t have the benefit of a global economy without the costs.

Therefore, if any new regulatory systems are created, it will be critical to coordinate them around the globe. If one country legislates that its banks must put money aside, those banks will be at a disadvantage compared to institutions in other countries unless there is coordination among nations to level the playing field. I recognize that this level of collaboration is not easy, yet during times of crisis, people and nations can come together in a way that benefits everyone.
In the Classroom
It’s clear that the current economic situation should be addressed in our business school classrooms, but it poses a challenge to the way we have traditionally taught our students. We lecture about the clever mechanics of valuation, and we explain how specific products solve problems like risk, funding, and liquidity. But we rarely help students understand how these innovative financial products might fail when the market is in trouble. A Ferrari may be a fantastic car, but if you drive it recklessly, you’ll have an accident. We must teach students how to handle the Ferraris we have created for the finance market—and how they have crashed in the past.

The question is how to introduce the historical perspective in the classroom. It reminds me of the debate business schools have had about the best way to teach ethics. Do we introduce the topic in a separate class, or do we touch on it in every course? Ideally, the same finance professor who teaches about a product should also warn students how it can fail. But most of us don’t have a historical perspective. We might be experts in financial innovation, but we don’t know as much about financial collapses. We’re often not competent to talk about past banking failures, and we’re reluctant to discuss things we don’t fully understand. We’d rather describe how great a Ferrari is than detail the risks that come with driving a fancy car.

If we want finance faculty to add that additional perspective, we’ll have to train them differently than we train them now. But how? Should that historical perspective be part of our training for PhD students? Should senior faculty encourage junior faculty to develop a deeper understanding of financial history? Should we ask for such background information to be included in our textbooks—where it cannot be found at the present time? I’m not sure.

At the same time, I’m not sure if we need to learn an altogether different lesson from the current crisis. Perhaps we need to teach our students more about risk management and our other financial models. There is no doubt that a large number of people in the financial industry, including those in the top management positions, were handling sophisticated products that they did not fully understand. When they promised us that everything was fine, either they were lying or they didn’t realize how deep and serious the problem was.

Perhaps a more thorough business education would have helped them see trouble coming in time to avert it. As management educators, we need to consider how we can deliver that education—before the next banking crisis occurs.

The Outlook from Asia
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While the Chinese economy is still relatively strong, it has been affected by the financial crisis in the U.S. and Europe. Export is a major engine for growth in China. If American and European customers buy fewer goods exported by China, that will have a negative impact on the Chinese economy.

The news might not be that bad for the Chinese financial market. Because it’s not as open as markets in more developed nations, its exposure to the subprime crisis has been limited. Some Chinese banks do have investments in mortgage-backed securities, but it doesn’t seem likely that any major Chinese bank is going to get into serious trouble. On the other hand, what’s happening in the world financial market will definitely affect the mood of China’s investors.

China’s Economic State
China already has suffered its own financial downturn. After more than a year of tremendous growth, the Chinese market reached its highest levels in October 2007. Exactly one year later, it was down by 60 percent to 70 percent. But because this downturn was not caused by the subprime mortgage crisis, many believe that China will recover more quickly than other parts of the world will. In fact, if there aren’t any other major problems, the Chinese market is still anticipating a growth rate of about 9 percent for 2009. If the global economy falls into a recession in 2009, the outlook for the global economy will be gloomy, but the future of the Chinese economy may remain relatively bright.

The big question in China right now is how much we should participate in the U.S. bailout plan. The U.S. would fund most of its $700 billion bailout by borrowing money, and Japan and China are among the countries that are considered major potential lenders. While the decision ultimately will be made by the top authority in China, economists are debating both sides.

Some believe that China already has a large enough
exposure to U.S. Treasury instruments and should diversify its portfolio instead of taking on more U.S. debt. Although they realize the risk is low because, technically, the U.S. Treasury will never default, they still entertain the possibility of a worst-case scenario. In that instance, the U.S. Treasury would print more money, and that’s definitely not a real solution.

Others point out that the whole world economy is linked together. If the U.S. economy is in serious trouble, that will hurt Chinese companies, investors, and consumers. That’s a strong argument in favor of lending money. I think that Chinese authorities will support the bailout, but they may negotiate issues outside of the financial crisis when they do so.

**Teaching in a Time of Turmoil**
The turmoil has made this an extremely challenging time to teach an investment course, as I did during the fall 2008 semester. At that time, exchange students accounted for about 30 percent of the students taking my course, and we always have international students enrolled. Many of our foreign students were from Europe and the U.S., and they had a deeply personal interest in the financial crisis.

I never knew on any day what major story was going to develop next. While I taught the class, we learned about Fannie Mae, Freddie Mac, the Lehman Brothers, the bailout, the cuts in interest rates, and other news. My first job was to clarify these events for my students. But then I put the information into a historical context.

For instance, I used a Harvard Business School case about the junk bond crisis of 20 years ago. If I changed the words “junk bond” to “mortgage-backed securities” and swapped the names of 1980s investment banks for those of Lehman Brothers and Bear Stearns, the case still worked to show how quickly things can go wrong.

This time has been challenging for students as well. Because the Chinese market was so strong a year ago, making money appeared to be easy, and many students had decided they wanted to go into the financial industry. Now those students are wondering if they’ll actually be able to get jobs in investment banking. The answer most likely is no, at least for the coming year.

Instead of considering this an entirely negative experience, I hope my students treat this as a once-in-a-lifetime opportunity. This is probably the worst situation they will see in their personal and professional lives, and it will demonstrate clearly the potential risks that exist in the financial business. If nothing else, they’ll learn how important risk management is. I think it’s good for students to see a very different kind of economy before they jump into the real world.

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**The Ultimate ‘Teachable Moment’**

*Thomas F. Cooley*

Dean and Professor of Economics

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*New York, New York*

What has happened on Wall Street is the ultimate teachable moment for a business school. We are seeing not just an economic crisis of global proportions, but the very rapid evolution of the whole international financial architecture. Our students are eager to deconstruct the failures involved and study the way regulation will impact the banking and finance industries. Moreover, they want to understand what the larger implications are for society when the pursuit of profits leads to a systemic breakdown that destroys the wealth of so many.

Since the crisis began, the Stern School has held several panel discussions and town hall meetings where our students could hear from our economics, finance, and financial history faculty, as well as alumni involved in the financial sector. Students were both excited by the opportunity to learn about such a historic episode and concerned about what it would mean for them and their careers. We have tried to give them a realistic message. We told them there will be challenges in the short run, but even financial crises and recessions end. Business will continue to be a powerful force for social change; there will still be careers for students with a passion for finance.

It is essential, however, that we teach students to do more than learn what’s happening right now. We can’t prepare students for careers in business just by talking about the way business is done today or was done in the past, or by adhering narrowly to case studies. If we don’t talk about the future, we impoverish the whole notion of education for careers in business.

**This Disaster Won’t Be the Last**

Gaining a perspective on Wall Street beyond the present is easier said than done: After all, the systemic effects of this financial breakdown have made this crisis extraordinary. The housing meltdown has magnified the loss of wealth on the
balance sheet, making this event bigger than the dot.com bubble of the 1990s. Our students and faculty must understand what happened, what incentive systems broke down, and why our system of checks and balances failed.

But students also must realize that this isn’t the first speculative bubble, and it won’t be the last. The history of banking and finance provides many examples of financial crises, but the lessons of history are easily forgotten. Therefore, we must help students develop the analytical tools that will help them understand this crisis and prevent—or, at least, manage—the next one. It’s very clear that they have a lot of work to do.

Research-driven business schools can help students in this way, because research helps us understand underlying fundamentals. Students must learn to think analytically and critically, not just reference current or past business practice. Through their research, faculty not only can decipher and explain current issues, but they also can lead the business and policy dialogue that aims to solve similar problems that might arise in the future. The structure of markets, the regulatory system, the credit rating agencies, financial derivatives, mortgage finance, incentives, and compensation—all these issues will fuel business school research for years to come.

Respect for Interconnection

These issues also reinforce our understanding of our interconnected global economy. In recent years, there has been some discussion of how economic growth has allowed other countries to decouple from the U.S. economy. It has been tempting to think that we live in a “brave new world,” where one country’s economy could prosper even if another’s failed. Clearly, that’s not the case. We now can show students just how interconnected the financial system is.

But the sudden and disastrous nature of this crisis has shown us another revealing truth: If we don’t tend to each part of this system with care and respect, we imperil the whole structure. Our students must know why those connections matter and how they work, if they are to be its stewards in the future.

After Enron’s collapse, I remember being asked how business schools could be training people with so little respect for the truth—how the company’s executives could engage in such deception. I say now what I said then: We must acknowledge our failures. We live in a complex world, and this set of events is a huge disgrace for Wall Street and much of the financial industry. We must be honest about the causes and be part of the solution.

But at the same time, we must recognize that the world financial system is the circulatory system for the world economy. We may need to adjust our regulation of our old capitalist model to make it run smoothly, but we don’t throw that model away. Business is still the most powerful social institution in the world. Business will go on and go forward. That’s why I think it’s so important for business schools to use this crisis as a springboard for discussing the social impact of business.

An even bigger lesson: The most stunning thing about recent events is that they didn’t happen because people wanted them to happen. They happened because people acted on assumptions that they thought were right. Then, they watched as the crisis unfolded at warp speed. That’s what makes this the ultimate teaching moment.

The reality is, students will work in a fast-changing, globally interconnected, often unpredictable world of business where the decisions they make can have real consequences. If students learn nothing else from this economic meltdown, they must learn just how interconnected banking and finance are within the larger economy and how globally interconnected our economies are to each other. They cannot escape these realities anymore.
I was one of the first on the ground in Afghanistan in '01. I did two tours there and one tour in Iraq. All that and a marketing degree from Culverhouse, and I'm ready to do battle in the boardroom. Hoo-rah.

- Scott Stevens
  Senior - Marketing
Dial M for Mobile

By Sharon Shinn

Last fall, the University of California, Irvine, announced a $1.7 million grant from the Bill and Melinda Gates Foundation to found a research institute that investigates how the world’s poorest people conduct banking over their cell phones.

In 2007, five of Japan’s top ten best-selling novels were originally “cell phone novels,” composed in SMS-style sentences on phone keypads and read by fans on their own mobile phones.

Meanwhile, last September, the University of Maryland in College Park began piloting a study to see whether handheld devices such as iPhones can improve the educational experience. This came four years after Maryland’s Smith School of Business started handing out BlackBerry phones to its incoming MBA students so they would become familiar with the “always on” technology of today’s mobile devices.

What’s going on here? Has the ordinary cell phone transformed itself into the single most useful piece of personal technology in the world?

What one device can students use for communication, entertainment, research, and education? The mobile phone. It promises to revolutionize the world—and higher education.
All signs point to yes. Today’s cell phones allow users to communicate, collaborate, shop, watch TV, listen to music, take photographs, check the stock market, edit documents, and view PowerPoint presentations—and, in some parts of the world, to bank, vote, and run businesses. Yet in many b-school classrooms, cell phones are banned because teachers find them disruptive, distracting, and wired with technology that allows students to cheat.

But change is coming, says Quasay Mahmoud, director of the Centre for Mobile Education Research (CMER) at the University of Guelph in Ontario, Canada. “The average cell phone today has more computing power than many of the computers of a few years ago, and many are equipped with video recorders, cameras, and other features,” he notes. “All of these could be used to improve the learning experience.”

Currently, cell phones are used on campus in a limited fashion, most often helping teachers and students coordinate schedules and improve access to course materials, says Mahmoud. “However, I believe this is a very limited vision of mobile learning,” he says.

One enthusiastic proponent of cell phones in the classroom is Liz Kolb, who authored Toys to Tools to show teachers how cell phones can be used in education. Kolb, an adjunct professor at Madonna University in Livonia, Michigan, also regularly blogs at www.cellphonesinlearning.com/. She says, “It’s important to start looking at the cell phone as the Swiss Army knife of learning, rather than as the most annoying thing in the classroom.”

If business students are going to function effectively in the business world, experts say, they need to be familiar with all the ways cell phones can be used in commerce, in social settings, and in education. Cell phones and mobile devices aren’t just reshaping education; they’re changing the way people live.

Reach and Potential

First, a math lesson. The International Telecommunication Union, a UN agency, expected 4 billion people to be cell phone subscribers by the end of 2008. That compares to just under 1.5 billion people worldwide who have access to the Internet, according to Internet World Stats posted by the Miniwatts Marketing Group. These statistics mean that more people are using cell phones than computers to communicate, compile data, and connect to the world.

That widespread access, Kolb believes, is the first of five reasons that educators should seriously consider the role of cell phones in learning. The second reason, she says, is that anyone who is 25 or younger uses cell phones for—well, everything.

“College-age students use cell phones to call friends, get jobs, create relationships, and schedule and organize their lives,” says Kolb. “If we can take advantage of the interest they already have in that tool, we might be able to create successful teaching in the classroom.”

Third, says Kolb, “students like to learn any time, anywhere, any place, at any pace. They don’t need the four walls of a classroom or a library. If they’re in sub-Saharan Africa with a cell phone, they want to be able to gather data, report information, and network with the world.”

Fourth, today’s students like to learn in collaborative settings, which cell phones can enable. Finally, they prefer their learning to have a real-world connection. “And what’s more real than being able to use the same tool inside the classroom as outside the classroom?” says Kolb. Whereas students are unlikely to take smart boards and classroom clickers out of the school building and into the office, they will hold on to their mobile phones. “They can walk out of school and say, ‘In class, we created a whole mobile campaign with our cell phones, and I can do the same thing when I start my own business,’” says Kolb.

In even broader terms, cell phones can be used in the classroom to improve interactivity, foster relationships, and increase the longevity of the learning process, says Carsten Sørensen, senior lecturer in information systems and innovation in the department of management at the London School of Economics and Political Science. He’s less impressed with the first function, the “simple transaction” of using a cell phone to make a connection via call or text message. But he sees real potential in using phones to mediate relationships—as in social networking sites such as Facebook—which would then contribute to lifelong learning.

People who buy certain software products get a promise of lifelong support, Sørensen points out; why shouldn’t students who graduate from a prestigious institution get the promise of ongoing access to the school’s resources? “We find, with our master’s students in particular, that they’re desperate to continue the discussion once they’ve graduated,” he says. “It would be hugely advantageous if we could find ways to do that in a mediated relationship like a social network.” And, he notes, cell phones offer instant access to those social networks.

Learning and Living

Professors who are still skeptical about the value of cell phones in education can test the waters in simple ways, says Mahmoud. For instance, he suggests that teachers design multiple choice quizzes that students can take over
their cell phones while they’re on the go. The University of Guelph’s CMER recently designed a platform to allow instructors to generate multiple choice quizzes for mobile devices through a customizable Web site, http://mobiq.cis.uoguelph.ca:8080/mobiq.

Students also can use cell phones outside of the classroom to listen to podcasts, conduct polls, or take photos and transmit data relevant to class projects. (More complicated ideas are detailed in “Killer Apps” on page 39.) Many simpler but useful educational applications for cell phones are already in place from major telecommunications companies that have developed entire programs around three key campus functions: education, safety, and student services.

For instance, Sprint’s Campus Connect program offers a range of mobile learning applications: course alerts, which allow students to manage courses and check grades; polling, which lets students use their cell phones like clickers to answer a professor’s questions; and flash cards, which give course-related questions and answers through the cell phone screen. In addition, streaming media enables students to take pictures, listen to podcasts, read and post to blogs, and watch video.

Campus Connect also delivers other student-based applications. To promote safety, it can send alerts to the cell phones of all students at once or it can track a single student who has notified security he’s on the way home. In the area of student services, Campus Connect lets students use cell phones to access campus social networking groups, answer administrative polls about what initiatives they’d like the school to invest in, and check shuttle schedules when they’re waiting outside on a cold day.

Similarly, Google Apps programs help schools integrate Internet, email, calendar, and collaboration tools across learning platforms. ESC Lille in France, for example, has just adopted the Google Apps program, which allows students to access a wide range of information with one log-in and one password. The school now can send a variety of notices to students’ mobile devices, from SMS security alerts to updates on courses. Students who have more sophisticated mobile devices also can watch videos from courses and conferences, and they can use these devices to access the e-learning platform no matter where they are.

Because the e-learning platforms are still quite new, it’s not clear yet how they will impact teaching strategies, says ESC Lille’s Christophe Bredillet, dean and director of post-

**Around the World**

While educators in North America and Europe are just beginning to see the potential of cell phones for both business and education, in other parts of the world, mobile devices are inextricably integrated into daily life. For instance, in many developing countries, and particularly in remote areas, cell phones already are the communication tool of choice—and likely to become even more important. As the University of Guelph’s Qusay Masmoud says, “Cell phones are much more popular in developing countries simply because there is no wired infrastructure, so the wireless infrastructure is cheaper and faster to deploy. In addition, most people access the Internet through their cell phones because it is very expensive to have Internet connection through a desktop. So the cell phone is the computer of choice for students in those developing nations.”

At the same time, in highly developed parts of the world, the cell phone
graduate programs and professor of strategy. But some of the advantages are already obvious. “Because the mobile devices are integrated with timetables, students can no longer say they were unaware of an event, which is big progress!” he says with a laugh. “But we think that students working on team projects will have better communication—they will interact with each other, not just in class, but at different times of the day. We’re also expecting a big reduction in paper used for course materials and information sharing.”

**Not So Fast**

Despite their current versatility and their future potential, cell phones still aren’t always welcome in the classroom or easy to integrate into education. The first barrier is usually faculty resistance.

“Some professors have a concern about putting their intellectual property online in a PowerPoint presentation or a video,” says Bredillet. “Other faculty have concerns about losing face-to-face communication with students.”

Sørensen agrees, noting that online and mobile learning can put too much distance between teachers and students—when what students want is a closer connection. He doesn’t see that desire for connection going away any time soon. “The more fragmented students’ lives become, and the more choices they have about the way they learn, the more they consistently say that what they want is as much access to their teachers as possible,” he says.

At the same time, Sørensen can envision an uncomfortable day in the future when students use cell phone technology to grade teachers while they’re actually in the middle of a classroom presentation. “If people can vote on what video MTV shows, why can’t they vote on what slide I show?” Sørensen asks. “Why can’t they use their mobile phones to rate me while I’m speaking?”

Even if cell phones in the classroom never become that intrusive, Mahmoud concedes that many professors do fear that pervasive use of cell phones will put additional pressure on teachers to answer questions instantly. However, he believes that educating students about proper cell phone use can ease their worries. “I think in a few years, faculty will have no choice but to use cell phone technology, so why not be leaders and start now?” says Mahmoud.

Kolb thinks professors also can calm their fears by creating a social contract with students, determining how the phones are used.

“People will be able to bank through them, purchase through them, use them as personal IDs.” In fact, cell phone makers already have started experimenting with cell phones that act as credit cards, using RFID technology to read electronic codes on products and send financial information to a banking partner.

“People will be able to bank through them, purchase through them, use them as personal IDs.” In fact, cell phone makers already have started experimenting with cell phones that act as credit cards, using RFID technology to read electronic codes on products and send financial information to a banking partner.

**One application that has huge potential in business**

is rapidly becoming an essential multitasking tool. That’s particularly true in the Asia Pacific region, where mobile phone penetration is close to 40 percent, according to the International Telecommunication Union. And people aren’t just talking on their phones: The ITU notes that nonvoice applications for mobile phones in the Asia Pacific region account for more than a fourth of the revenue for mobile phone operators.

One application that has huge potential in business, believes author Liz Kolb, is QR code, or quick response code. This is a square image that looks something like a bar code and can be imbedded in a product or included on a billboard. If a consumer uses his cell phone to take a picture of a QR code, the cell phone will immediately display information about the product, which might include a Web address, a number to call, or additional details about how to buy it. Japan, China, and Korea are already doing business through QR codes, says Kolb, though few U.S. phones work with them.

“I predict that eventually cell phones will be like credit cards,” says Kolb. “People will be able to bank through them, purchase through them, use them as personal IDs.”

In fact, cell phone makers already have started experimenting with cell phones that act as credit cards, using RFID technology to read electronic codes on products and send financial information to a banking partner.

“In the future, cell phones won’t be tied to any local area code,” Kolb adds. “They’ll be more like Social Security numbers. People might be able to use them as driver’s licenses or passports. There’s a lot of potential ground to cover if the cell phone is going to become the all-in-one.”

She adds, “For the U.S. and other developed nations to be competitive with the rest of the world, we need to be conscious of how cell phones are being used for business—and we’re behind.”

_If people can vote on what video MTV shows, why can’t they vote on what slide I show?_ Carsten Sørensen, London School of Economics and Political Science

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_D-BASE/GETTY IMAGES_
can be used in class, what rules should govern their use, and what consequences should follow if the rules are broken. But even if faculty are persuaded to integrate cell phones into their learning plans, some obstacles remain.

For instance, if students are using a wide range of devices, there can be compatibility issues, though these can be overcome easily if all students are using the same mobile browser. Nonetheless, Mahmoud says, if schools try to use custom-made applications on cell phones, there could be some incompatibility unless schools require students to have a particular mobile phone—or provide them that phone when they arrive on campus.

One proponent of standardization of devices is Ed Davalos, national director for the education and utility vertical markets for Sprint. If schools mandate which devices students should possess before they come to campus as freshmen, the adoption rate is much higher, he points out.

But even with standardized devices, once students step off campus, they might encounter problems. “Mobiles are limited by the speed of the Internet connection as well as the cost of communication,” Bredillet says. “When students go abroad for exchanges or internships or company projects, and they don’t have access to a local Internet connection, using the mobile device can be costly.” However, many of these problems will disappear as services improve and more sophisticated phones are brought to market.

A Look Ahead
That time isn’t far off. In fact, today’s cell phones are so versatile that they’re really minilaptops. New applications turn them into LCD projectors; new accessories allow users to input data via wireless keyboards. A day might come when cell phones replace computers, at least for any function that requires mobility.

The big drawback for Bredillet, and many others, is the small size of the cell phone screen. “But if my mobile device connected to a big screen with something like Bluetooth technology, I could use my mobile device like a computer,” he says. “When my phone will enable me to have all my data on my mobile device and allow me to travel all over the world, I will be more than happy.”

Sprint’s Davalos thinks it’s inevitable that additional functions will be incorporated to upgrade the current generation of “smartphones,” the word for multifunction mobile devices. Their cost already hovers at about one-tenth of that for a laptop, he points out, and prices are likely to drop as technology improves. Already, he says, more people are likely to buy smartphones than cell phones.

And the future won’t just bring devices with more abilities, it will bring networks that offer more capability. The next evolution of connectivity will be WiMAX—short for worldwide interoperability for microwave access—which will allow broadband speed without the necessity of cables and over a much greater distance than current wireless technology. It’s already available in a few markets, and Davalos expects WiMAX chips soon will be integrated into cell phones and laptops. “This will make faster, more secure devices less expensive,” he says.

The next big change Davalos expects is fixed mobile convergence, in which all the applications and data streams come together and allow for simultaneous use. “Right now, if you’re talking on your cell phone, you can’t see a text message that’s being sent to you. With fixed mobile convergence, five people collaborating on the same project can be using the same device to talk to each other while they’re looking at a video,” he says.

Continuing Evolution
As technology evolves—and as companies like Sprint, Google, and Microsoft heavily promote integration of cell phones into the classroom—cell phones inevitably will become fixtures in the university setting. Experts hope that feedback from both educators and students will influence the next generation of mobile devices used for education. Institutions such as the University of Guelph’s Centre for Mobile Education and Research will track these innovations while also developing tools that will make it easier for teachers to integrate mobile devices into the curriculum.

As mobile devices evolve, they will become more versatile, more useful, and more essential—which means business students and faculty will need to understand their immense social and financial potential. Bloggers and pundits refer to cell phones as “the world in your pocket.” If that’s true, the world needs to be in the b-school classroom, too.
Killer Apps

Interested in integrating cell phone technology into your classroom, but not sure where to start? More than enough information is available online.

“There are 200 to 300 free Web resources that couple with mobile phones,” says author and educator Liz Kolb. “They do everything from allowing you to post reports on the Internet to helping you create text message campaigns like the one Barack Obama used.” Both simplespark.com and Listio.com have compiled dozens of Web resources designed for mobile phones, and Kolb constantly reports about new ones on her blog. These are among the applications she likes best:

- Polleverywhere.com allows individuals or organizations to pose questions to a group of respondents. When the respondents send a text message to a specified number, the site instantly tracks them online through a text messaging board. In an entrepreneurship classroom, for example, this might allow students to get consumer feedback on a potential new product.
  
  The professor first could have students brainstorm ideas in class through the site. Then he could give them a week to solicit input from friends and family, who send messages to the same number. “When they come back to class a week later, they’ll have a whole board full of ideas on how to develop this product,” says Kolb.

- Textmarks.com allows users to create a catchy keyword about any product or topic they desire. Anyone who texts that keyword to 41411 gets the response the user has specified. The site even allows users to print T-shirts bearing that keyword.
  
  So, says Kolb, if a student has launched a new business to sell bath products, she might designate the keyword “bubbles.” She puts up posters, sends e-mails to her friends, and wears a T-shirt, and each medium encourages people to text the word “bubbles” to 41411. When they do, they might receive back a text message describing the product and how to purchase it; or the text message might direct them to a Web site with more information. If they choose to become subscribers, every time the student releases new information about the bath product, the subscribers will get a text alert giving them the latest details.

- Mobileactive.org is an activist’s dream site, an organization that shows how cell phones are being used in worldwide applications among the poorest people in the world. Students can learn about cutting-edge applications for banking or about petitions such as last fall’s “Calling All Innovators,” a contest run by Forum Nokia which invited participants to create mobile applications that would improve the world.

  The other possibilities for cell phone applications seem limitless. Says Qusay Mahmoud of the University of Guelph, “In short, there is not one killer application for mobile learning. We have a killer environment—the wireless network and the smartphone—so anything is possible.”
An active office of technology services can help a business school spark the imaginations of its faculty and build innovation into its culture.

As the information technology age speeds up, it’s vital that business faculty keep themselves and their students up-to-date. But how can professors know which technological tools are right for their subject matter and style of teaching, and which ones will fall flat? The role of a robust IT services office is to help them determine just that, providing broad-based, cross-curriculum technological leadership and support to a school’s students, faculty, and staff.

In the Stead Technology Services Group at the University of Iowa’s Tippie College of Business in Iowa City, we believe that there should be few limits to what a technology services office can do to assist faculty. It should do more than set up video conferences and tackle IT troubles. It should also foster faculty’s excitement about and willingness to experiment with technology; it should help them solve problems in the classroom, with or without technology. Its function is to encourage and support professors’ attempts to enhance their teaching.
Create a Culture of ‘IT Innovators’

Many business faculty attend conferences about new educational technologies and return to campus excited and energized by what they’ve learned. They’ve seen the latest in state-of-the-art interactive tablets, student response systems, trading rooms, Web tools, and software that could help them expand and enhance the learning environment.

But when they get back to campus, these would-be innovators can be frustrated to find that they have no resources available to help them examine these devices and implement them in ways that make sense. Once enthusiastic about the potential of new technology, these faculty can become uninterested because of a lack of support.

For example, before one school’s tech office began its outreach efforts in earnest, even its most enthusiastic faculty struggled. One of its computer science professors attended a conference that presented robots designed to help students learn programming concepts. Excited, he purchased a small robot and brought it into the classroom. Unfortunately, he failed to integrate it into the course in a way that sparked students’ interest. It ended up sitting on his desk for the rest of the semester.

Had a fully active tech services office been available, this professor could have discussed what he had learned with its staff members. They could have worked with him to study the pedagogy behind utilizing robots in the classroom. Finally, they could have helped him start small, with a single class, to see what worked and what didn’t. What was a failed experiment instead could have become a vital addition to this professor’s teaching.

Overcome the Obstacles

While an active technology service office is critical to a business school, three major obstacles might prevent a school from putting one in place. However, these obstacles are not insurmountable.

Finding the funding. Even schools without funds at the ready to create a technology services office can find ways to secure finances. They can apply for federal and private grants; they also can solicit gifts from corporations, alumni, or friends of the college known to be interested in technological projects. In addition, they can approach publishers whose textbooks are directly linked to software and ask the publishers to provide the programs; other companies may be willing to provide computer equipment.

Administrators also should be sure to let the school’s development office know of the need for funding to back faculty IT projects. It is amazing how often the development staff is simply not aware of a need for funding earmarked for technological experimentation. By pursuing this avenue, for example, one school received $100,000 annually from a donor who specified that the funds be used to fulfill “technology needs.” With that donation, the school implemented a technology initiative program that encouraged faculty to apply for funding to support their technology experiments.

Hiring the right staff. It doesn’t matter how much tech funding a school receives or how many pieces of equipment a company donates if a school doesn’t have enough IT staff to utilize the new resources. It’s important to make donors aware of the importance of funding IT staff as well as IT tools. Ideally, a technology services office will include at least one systems administrator, one help desk specialist, one application developer, one Web site develop-
Here, one instructional technologist who can determine the best ways to work technology into a school’s individual curriculum.

If it’s not possible to assemble such a group, don’t forget the untapped talent elsewhere on campus. Look into hiring computer science or education students who can help faculty while refining their skills. Business schools at larger universities also can call on their campuses’ central IT offices for guidance.

**Dedicating the space.** Providing a testing space for an active IT office is of utmost importance for this experimentation model to work. For schools with little room to spare, start small: A corner in a computer lab or a table in the faculty lounge could be a place to start to encourage technological experimentation. As more faculty take advantage of the service, a small area eventually can be expanded into its own office.

**Get Faculty Through the Door**

At the Tippie College of Business, we have two Web developers, two application developers, an IT security officer, a systems administrator, a digital media expert, and two instructional technologists available to help professors. Even so, our biggest challenge is to get them to come to our office! While faculty understand our technical backgrounds and respect our skills, many don’t think of coming to us for help in pedagogy and instructional design.

We plan to expand our outreach efforts, so that we’ll be on faculty’s radar when they begin to design their courses. We’ve created the Faculty Initiative Fund, for instance, where faculty can apply for funding to try new uses for technology in the classroom. Last spring, an economics professor received funding to acquire an interactive tablet PC that he can carry with him as he walks freely around the class of more than 300 students, using it to send notes and other information to the central projection screen for all to see.

We also want our faculty to understand that they don’t have to know about technology to come to us for help. If they have a question about instructional design, we want them to think of us first, so that we can explore the possibilities with them. Do they want to make their materials more accessible? Do they want to track their students’ progress? Do they want more freedom to walk around the classroom? Once they identify a problem, they can leave it up to us to determine whether technology provides the solution.

**Spark the IT Conversation**

If a school wants to add a technology services office—or improve one it already has—administrators must look beyond what faculty and staff say they need and instead determine what they don’t say. That is, administrators cannot assume that, just because faculty are not demanding more tech support, they don’t need it. When a school’s attention to IT experimentation has been neglected, faculty and staff often give up asking for what they want or discussing what they need.

Overall, a technology services office can help spark that discussion, as well as promote and provide opportunities to experiment. When a school offers faculty these technological opportunities, professors stay innovative in the classroom—and a business school keeps its position as an industry leader.

Jim Chaffee is the director of the Stead Technology Services Group at the University of Iowa’s Tippie College of Business in Iowa City.
Three schools radically revamp their programs to stay relevant in the complex and quick-moving world of business.

The dizzyingly fast pace of change in the business world has been mirrored by an equally head-spinning rate of change in management education. For business schools to prepare students to do business today, they must keep up with the global, technical, and cultural trends in the real world.

“Until recently, nearly all undergraduate business curricula were built upon an educational model that grew out of the 1950s,” says James M. Danko of the Villanova School of Business in Pennsylvania. “Those curricula focused on the manufacturing economy and compartmentalized learning into discrete business disciplines.” Even though most schools made minor updates to their b-school programs, the time for incremental change has passed, Danko says. “Curricula must be overhauled to prepare students for the competitive realities of global business.”

Lawrence R. Glosten of the Columbia Business School in New York City notes that today’s MBAs are promoted quickly, change jobs often, and switch careers frequently. “To remain relevant, management education must go beyond merely teaching a set of functional skills, such as finance, marketing, and leadership,” says Glosten. “MBA programs must impart to future executives a mindset that allows them to analyze, decide, and lead in a truly global marketplace.”

But it’s not a simple task to convince all the stakeholders that a curriculum overhaul is essential. “It can be like trying to move a cemetery out of the way of oncoming development,” says Chuck Williams of the College of Business Administration at Butler University in Indianapolis, Indiana. “Many people will question the need for the change. And the whole exercise will require extensive discussion and thorough planning.”

They speak from experience: All three schools recently have completed massive overhauls of their business school curricula. While Villanova focused on its undergraduate program, Columbia on its MBA, and Butler on both, all three schools have undergone complex and ambitious restructurings that have left them stronger, more flexible—and ready to do business.
Real Challenges, Real Change
by Chuck Williams and Richard E. Fetter

From 1998 to 2003, the College of Business Administration (CBA) at Butler University in Indianapolis experienced a 29 percent drop in freshmen enrollment, as well as declining enrollment in the MBA program. During the same time period, we were reading many articles suggesting that management education was increasingly irrelevant and inadequate at preparing students for business careers. We decided we needed to address both issues head-on.

We formed a steering committee that benchmarked Butler’s CBA against schools such as Babson College, Bentley College, Ball State University, and the University of Dayton. The committee concluded that Butler’s CBA offered nearly the same curriculum as much larger business schools, but at greater expense. To put it bluntly, we were a good, pricey, vanilla business school. To remain competitive, our CBA needed to provide additional value.

We drew inspiration from the “hedgehog concept” Jim Collins describes in Good to Great—the notion that every organization has something that makes it unique. For a hedgehog, that singular characteristic is the ability to roll itself into a spiky ball to protect itself from predators. For Butler, it was our long history of linking students with real business: Many faculty members have professional backgrounds; retired executives frequently work with Butler students; and the school requires students to participate in two internships.

We determined that a real-business focus would be our own “hedgehog concept.” We reasoned that, if medical students at a teaching hospital learn by doing, aspiring businesspeople could learn best by taking a hands-on approach to business.

By May 2003, our steering committee had laid the groundwork for a new, more integrated undergraduate curriculum. In August, we held a retreat to gain faculty buy-in for the new approach. Faculty-led project teams laid out the CBA’s declining enrollment and made the case that the school needed a curriculum change. A local business executive talked about how changes in the global marketplace required a different business school approach.

Once faculty members were on board, the momentum for change continued to build. The project teams developed key anchor components of the new curriculum, and in October the CBA faculty formally adopted the theme of “real life, real business.”

Changing our culture was challenging and sometimes frustrating. But the experience was ultimately gratifying as enrollment increased and a new excitement energized our campus.

The Freshman Experience
In August 2004, we kicked off the new approach with the Freshman Business Experience (FBE), which helps students learn more about themselves while introducing them to business concepts. To help them determine their behavioral style, we administer three personality assessments: the Myers-Briggs Type Inventory, DiSC, and Strong Interest Inventory.

During the Get Real Weekend, held soon after they arrive on campus, students conquer a demanding obstacle course that ends in a high-ropes challenge. This experience helps build their confidence, gives them insights into their abilities and fears, and stresses the importance of team building.

Each freshman is assigned not only an academic advisor, but also a career mentor from our Executive-in-Residence program. These mentors guide the students through a required, structured, four-year career development program that includes shadowing professionals on the job, attending job fairs, and participating in mock interviews.

Collaboration with area businesses begins freshman year. Each class is partnered with companies such as Steak ‘n Shake, Ritter’s Frozen Custard, and Indianapolis’ Hubbard & Cravens Coffee Company. In the classroom, company representatives discuss concepts such as marketing, while site visits allow students to see business in action. The grand finale of the FBE is the Top Dog business plan competition, during which teams of students perform market research and devise business plans for a proposed business, product, or service.

Sophomore Through Senior Years
The Freshman Business Experience is followed by the Real Business Experience (RBE) sophomore year. In the RBE, the business plan idea introduced freshman year continues, as teams of students perform market research and write detailed business plans during the fall semester. They present their plans to real financiers for the chance to receive up to $5,000 in seed capital.

During the spring semester, teams that choose to receive the funds launch their businesses as for-credit electives. The semester is broken into four financial “quarters”; every quarter, the business owners must report on the results of their financial, operating, and marketing strategies. They also re-forecast their operations based on initial experiences. In 2007, 24 of the 26 plans were approved for financing, and 12 businesses were launched.

Students receive more real-world experience during the two required for-credit internships—typically one between junior and senior year and another part-time during senior
Grades are based on employer evaluations and students’ reports on their projects. Butler has internship relationships with companies such as Merrill Lynch, Ernst & Young, Wellpoint, Lilly, and Rolls Royce. We also send several students each year to six-month Johnson & Johnson internships, and our graduating seniors join its Financial Development Leadership Program.

As the “real life, real business” approach evolves, Butler is developing an applied capstone experience for the senior year. In a pilot program last fall, 20 students were divided into teams that worked on consulting projects with four local businesses.

Seniors get many additional chances to interact with businesses. For instance, in one marketing class, seniors worked with Finish Line, a sports apparel marketer. Students analyzed the company’s merchandise and pricing strategy, in-store experience, and brand recognition in the urban campus market. They used such unorthodox methods as on-campus closet raids to determine what lifestyle and athletic shoes classmates favor.

Seniors in our applied portfolio management finance class also have been getting hands-on business experience through a three-year pilot program that allows them to invest $1 million from Butler’s endowment. Last fall, the class’s investment performance was favorable relative to the S&P, as the class earned a return of 5.04 percent, while the S&P 500 index was up only 2.9 percent.

**Additional Opportunities**

Experiential learning became an even bigger part of the CBA classrooms in 2005, after Lilly Endowment Inc. awarded a $22 million grant to fund the Butler Business Accelerator. Through the Accelerator, students and faculty work alongside professional consultants to advise middle-market companies in central Indiana.

In 2005, a strategy team began analyzing options for reforming Butler’s MBA program—including possibly shutting it down because of declining enrollment—and determined that real-life business experiences would revitalize the program.

Now all students begin their graduate coursework by participating in a Gateway Experience, a one-day immersion with a local business. In one immersion, teams of students spent the morning observing on-site operations at various Steak ’n Shake restaurants in Central Indiana with the goal of improving the drive-through experience. That evening, they presented their recommendations to Steak ’n Shake executives.

As our “real life, real business” approach continues to evolve, we are infusing hands-on opportunities into all of our MBA courses. We’ve also created a final-semester capstone experience that requires students to help solve problems at companies during a semesterlong project. Capstone students have worked with such organizations as Roche Diagnostics and Second Helpings, a local charity.

**Spreading the Word**

The CBA has launched aggressive communication strategies to inform prospective students and stakeholders about our curriculum change. To attract MBA candidates, we instituted an extensive advertising campaign that included radio, print, online, and billboard ads. To recruit undergraduates, we relied heavily on new media, including the campus’s first blogs and video podcasts (www.butler.edu/reallife). To raise the CBA’s profile, we also created an electronic newsletter and embarked on a local public relations campaign. In addition, we have relied on our community outreach programs to spread the news through word of mouth.

Since we have adopted our “real life, real business” approach, the CBA’s rate of undergraduate growth has been twice that of the overall university, and MBA enrollment has increased by more than 60 percent. This has led to a new, highly selective admissions process. However, we know that, to remain relevant, we must constantly update our curriculum so that we mirror the business world.

We are still learning what works and what doesn’t with “real life, real business.” Sometimes the process feels like driving across a bridge while building it at the same time. Nonetheless, we are convinced that Butler students will discover that the bridge leads them to a better business education—and greater success in the business world.

Chuck Williams is dean of the College of Business Administration at Butler University in Indianapolis, Indiana. Richard E. Fetter, who is currently professor of marketing, was dean from 2002 to 2007.
Recalibrating the Core  
by Lawrence R. Glosten

At Columbia Business School, our goal is to equip MBA students with a versatile toolkit, stocked with the analytical and interpersonal skills they will need to be effective leaders throughout their careers. While we regularly assess and update our core curriculum, we carry out an extensive review every six to eight years.

For our most recent review, Dean Glenn Hubbard formed the Foundations Curriculum Committee (FCC), whose mandate was to inject greater flexibility into our core without upsetting our successful cluster system or altering our academic calendar. The FCC considered feedback from alumni, recruiters, business practitioners, and students. Our goal was to develop a new curriculum that would prepare MBA graduates to meet workplace challenges, broadly and within their chosen industries.

Rigorous and Flexible

The result was a two-tier core curriculum that consists of a Required Core of 6.5 courses and a Flexible Core of 1.5 courses. To create the new core, which makes up about 40 percent of the MBA degree requirement, we made three key changes:

First, we reduced the core from nine to eight full-term courses, which allows students to take an additional elective in the first year. The Required Core includes two full-term courses (corporate finance and financial accounting), and nine half-term courses. The Flexible Core is made up of three functional categories: organizations, performance, and markets. Students choose three half-term courses, one from each category, to gain greater depth in one specific area that matches their career interests.

Second, we placed a greater emphasis on leadership. We kept our leadership development course in the Required Core, but we moved it into the first semester. This move allowed us to integrate the course more fully with our Program on Social Intelligence, which not only is woven into the curriculum, but also is part of our student club and MBA experience.

Finally, we added a corporate governance module, taught as a series of pre-term sessions that include pre-term readings. The aim of the module is to familiarize students with the concept of corporate governance at multiple levels: their careers, their organizations, the economy, and society at large. The module also explores the interaction of the firm with shareholders, other stakeholders, and regulatory bodies.

Ensuring Success

Reviewing and overhauling a business school’s core curriculum is never an easy task. From our experience, we can offer tips for making the process as effective as possible:

• Lay out guiding principles and achieve buy-in up front. From the outset, Dean Hubbard and the committee members shared a unified vision of creating a more flexible, compact, and relevant core. We were committed to keeping a foundational body of knowledge necessary for every Columbia MBA student, while recognizing the curriculum review as an opportunity to refine the core requirements.

• Install compelling leaders. Most faculty members hold strong points of view, so it is important to appoint senior and respected committee leaders who will inspire others while keeping the project on schedule. Our committee members, all leaders within their academic divisions, were responsible for building faculty support, communicating proposed changes, and guiding the implementation of these changes.

• Solicit input from multiple stakeholders, while carefully balancing how that input is considered. For example, when we were evaluating our curriculum’s applicability to the workplace, we gave more weight to feedback received from recruiters, CEOs, and mid-career alumni than from students.

• Set clear guidelines, but leave room for imagination. At the first meeting, Dean Hubbard instructed the group to design an “ideal” core curriculum, free of the cost constraints associated with course design and staffing. This dia-
We know that even our foundational courses should not be set in stone. We will review our core curriculum continually.

Lawrence Glosten, Columbia Business School

logue helped the committee think more creatively.

- Cultivate broad faculty support throughout the process. The FCC was responsible for deciding what to cut from the flexible new curriculum and what to leave intact, but important details involving content development and implementation fell to more junior faculty within the academic divisions. Going forward, each division is charged with monitoring the effectiveness of its courses.

- Set an end date, and be sure to budget plenty of time for working out the details. Sorting out details of the new courses can be the most time-consuming part of the process, and there will likely be many differences of opinion to negotiate. For this reason, it’s important to impose a time constraint on the review process; when there is a goalpost in sight, people are encouraged to move toward consensus faster.

In our case, it took the FCC about 18 months to complete its review. The first task was to decide upon a strategy and shape the new curriculum accordingly. We then piloted some of the new courses as electives, which allowed us to perfect implementation issues before we officially launched the new curriculum in the fall of 2008.

- Create an environment that encourages ongoing innovation. Curriculum innovations should not end with the close of your formal review. Business changes every day, and the best management schools consistently find ways to deliver knowledge and skills that are at once timeless and adaptable, which means that even a core curriculum needs to stay flexible.

At Columbia, by splitting the curriculum into Required and Flexible components, we have built in a mechanism for innovation. Each academic division is responsible for designing the content of its Flexible courses, and, because the courses are effectively in competition with each other, faculty members have a strong incentive to develop compelling courses that address real-world challenges.

Continuous Improvement

Our formal review for this cycle has ended, but the FCC’s work is far from complete. We know that even our foundational courses should not be set in stone. We will review our core curriculum continually through ongoing discussions with faculty and recruiters, as well as our usual student surveys. Such reviews not only will keep our curriculum fresh and innovative, but also will ensure that it provides our graduates the skills they need for a lifetime of business leadership.

Lawrence R. Glosten is S. Sloan Colt Professor of Banking and International Finance at Columbia Business School in New York City.

Reinventing the Curriculum

By James M. Danko and Bethanie L. Anderson

To make sure our school would be able to prepare students for the competitive realities of global business, two years ago the Villanova School of Business (VSB) built a whole new undergraduate program. Our Undergraduate Curriculum Task Force took a holistic approach to developing a rigorous, highly integrated curriculum infused with team teaching, action learning projects, simulations, international experiences and topics, and guest speakers.

The task force particularly wanted to focus on the intersection of disciplines that were traditionally separated, including finance and financial accounting, operations management and managerial accounting, and management and marketing. This emphasis led to the creation of three six-credit, team-taught courses in the new curriculum: Financial Management and Reporting, Business Processes, and Competitive Effectiveness. In addition, all courses in the new curriculum were designed to highlight four areas: a global mindset, innovation, ethics, and technology.

Approval and Launch

The task force submitted the proposal to a new faculty committee that reviewed it and recommended additional enhancements. This widened the circle of faculty involved in the process and built further support.

To win the support of all faculty, the committee leaders met separately with each academic department to present the proposal and ask for its endorsement. The proposed curriculum was politically sensitive, especially because it eliminated six core courses that were to evolve into three team-based courses. For example, it consolidated core Accounting and Finance courses into one team-taught course. Fortunately, VSB faculty overwhelmingly approved the new curriculum.

A key component of the new curriculum is the freshman Business Dynamics Course. The course was designed by eleven faculty members, who represented all core disciplines. The integrated yearlong course provides students with a context for their entire business learning experience, while introducing core business disciplines and showing how these disciplines interrelate. The course emphasizes innovation, openness to change, and the development of personal skills, while also integrating information on the global, political, ethical, and technological dimensions of business.

Our new curriculum officially launched in the fall of 2008. All incoming freshmen are experiencing the new curriculum this academic year.
Lessons Learned
During VSB’s restructuring process, we learned that certain approaches contribute to making a curriculum overhaul successful:

- **Realize that all positive momentum facilitates curricular change.** During the three years preceding the start of our new curriculum, our business school enjoyed greater public recognition, which led to excitement within the community and support from alumni. The positive momentum also fostered new ideas and encouraged the idea that large-scale change was both possible and desirable.

  Because we wanted to gain greater recognition for our business program, we were quite deliberate in the way we positioned VSB externally, which led to positive media coverage and improved positions in *BusinessWeek* rankings. At the same time, we continually emphasized to the general administration how the university would benefit by running a premier business school. All these efforts contributed to our success in rebuilding the curriculum.

- **Identify priorities and invest in them.** Starting in 2005, we regularly advanced our vision of VSB becoming a globally recognized school. This vision stressed the importance of investing resources in a flagship program and the crucial role of faculty.

- **Respect the central role of faculty.** Faculty drove the creative planning and decision-making processes, and ultimately all VSB faculty joined open discussions about the recommended curriculum. Once faculty members recognized that changes would lead to higher educational quality for their students, their support and engagement were easier to obtain.

- **Encourage creativity and entrepreneurial spirit.** In tandem with the curricular overhaul, VSB undertook a faculty reorganization to enhance cross-disciplinary collaboration in research and teaching. Our Task Force on Faculty Organization established four interdisciplinary clusters of faculty activity, called VSB Strategic Initiative Groups (SIGs), in the areas of analytics, business innovation, financial services, and corporate social responsibility. Since then, nearly one-third of VSB faculty members have become affiliated with a SIG. The SIGs have become key sources of new ideas, which generate a variety of course concepts and pedagogical approaches.

- **Appreciate the global business environment.** To establish our place in the current business market, we asked stakeholders about our strengths and weaknesses. Where could we improve? How did our culture need to shift so that we could recognize and address our shortcomings? This was the kind of research that led VSB to identify global mindsets, innovation, ethics, and technology as the cornerstones of our new curriculum. We also determined that we needed to strengthen our technology, mathematics, and analytics offerings.

- **Appreciate each school’s potential areas of distinction.** Business schools may share a common charge to educate students to the best of their ability, but each institution’s brand identity, geographic considerations, and market demands make it unique. Any curricular changes should reflect the students the school wants to attract, the market it wants to serve, and the brand identity it wants to create.

Ongoing Goals
When we revamped our curriculum at VSB, we were determined to maintain our core values, such as our emphasis on the liberal arts and our commitment to our close-knit community. In addition, we wanted to honor our Catholic, Augustinian tradition through our focus on social responsibility, service learning, and ethics.

At the same time, we hoped that a greater level of national recognition would help us attract top-quality students and allow us to strengthen our educational value proposition. Finally, we believed that the new curriculum would benefit our faculty by offering them exciting cross-disciplinary approaches to their teaching and research.

We know the process is ongoing. There is more work to be done, and there are more lessons to be learned. But so far, it looks like VSB is off to a great start.

James Danko is the Helen and William O’Toole Dean of the Villanova School of Business in Pennsylvania. Bethanie Anderson is a senior communications associate at the school.
Negational Identity and Politics

“Negational identity” may play a large role in political campaigning, according to a new study. That is, political candidates may influence voters more by focusing on who they aren’t than by explaining who they are.

The study of the power of negational identity was conducted by Chen-Bo Zhong of the University of Toronto’s Rotman School of Management in Canada; Adam Galinsky of Northwestern University’s Kellogg School of Management in Evanston, Illinois; and Miguel Unzueta of the UCLA Anderson School of Management. To test their theories, the researchers conducted two experiments, one at Northwestern and one at UCLA.

In the Northwestern experiment, researchers randomly selected 19 Asian undergraduates and asked them to write ten-minute essays about how being Asian had affected their lives in the United States. Another 19 Asian undergraduates were asked to write essays about how being “not Caucasian” had affected their lives. After completing their essays, they were asked to respond to a seemingly unrelated question about whom they preferred in the U.S. Democratic primaries, Hillary Clinton or Barack Obama.

Of students asked to write in the affirmative about being Asian, 68 percent preferred Clinton. Of those asked to write in the negative about not being Caucasian, 63 percent preferred Obama.

“Highlighting one’s negational identity as nonwhite increased Latino and Asian support for a black presidential candidate, even without any coordination of interests,” the authors write.

That’s not to say that minority candidates should purposely emphasize the fact that they aren’t white—such an obvious strategy would likely backfire, say the authors. They point to a comment Obama made during his campaign last summer that noted that his face did not look like the faces of other presidents printed on U.S. currency. The uproar over that remark suggests that it would be unwise for candidates to introduce race into a campaign, says Unzueta.

Candidates might best use negational identity to their advantage when they refer to the opposing party, say the researchers. The Obama campaign, for example, used it liberally by contrasting Obama’s views with the largely unpopular views of the sitting president, George W. Bush.


Bilingual Ads for Bilingual Markets

If corporations want to reach bilingual markets, they may need to produce ads that use both the local and adopted languages, say Rohini Ahluwalia of the University of Minnesota’s Carlson School of Management in Minneapolis and Aradhna Krishna of the University of Michigan in Ann Arbor.

The pair conducted studies in India, where most citizens are fluent in English and Hindi. The researchers found that the people in India associate the Hindu language with terms such as “close,” “friendly,” and “familiar,” denoting community and belonging. They associated English, on the other hand, with terms such as “global,” “hip,” and “upper class,” denoting sophistication.

In that market, say Ahluwalia and Krishna, advertisers will be more successful if they use the native Hindi to market necessary items like laundry detergent, a product that consumers connect to home. However, they should take a mixed-language approach for luxury items like chocolate or cars. Why not use the local language alone? Local cus-
tomers would likely be suspicious of a foreign firm using the local language, researchers explain.

The researchers point to other markets such as Canada and Latin America, where ads often run in French-English and Spanish-English, respectively. Someone in Spain may be more influenced by a foreign firm’s ad for a luxury car if it’s delivered in Spanish and English, for instance, than he would if the ad were in one language alone.

These findings emphasize that multinational firms need to be careful when choosing the language they use in their marketing, Ahluwalia notes. If a company is uncertain of which path to take, she says, “The safest bet is to use mixed-language ads when working with bilingual markets.”


Big Spenders and Bankruptcies

In the past, illness and unemployment were major drivers of personal bankruptcy filings among Americans. Recent research from the University of California, Davis, finds that simple overspending is now the primary trigger.

Ning Zhu, associate professor of management at UC Davis, examined all 2003 personal bankruptcy filings in Delaware, the first U.S. state to make its filings available through the Public Access to Court Electronic Record system. The state’s demographics also resemble those nationwide. As he followed those cases to their conclusions, Zhu compared these households with solvent ones included in the Federal Reserve Board’s national Survey of Consumer Finance.

Zhu found that debt accounted for more than 50 percent of recent bankruptcies. Medical expenses accounted for only 5 percent, and job loss accounted for only 13 percent. The mortgages for bankrupt homeowners were 3.21 times higher than annual household income, compared to 1.73 times for solvent households. Auto loans were double the annual income for bankrupt households, compared to 0.4 times for solvent households.

According to the American Bankruptcy Institute, more than 2 million personal bankruptcies were filed in 2005, nearly five times the number of bankruptcies filed in 1985. In the study, Zhu suggests that some Americans may deliberately spend beyond their means with the intention of using the bankruptcy system to erase some or all of their debt.

“Bankruptcy law reform should aim to address the issue,” Zhu writes. He adds that current laws that focus on income, rather than consumption patterns, may not fairly distinguish between those who need bankruptcy protection because of adverse events and those who are deliberately taking advantage of the system.


Reining in Powers of Influence

Division managers who hold too much sway in an organization’s power structure can be dangerous, say Chris McNeil, a professor of banking and finance at Appalachian State University’s Walker College of Business in Boone, North Carolina, and Tom Smythe, a professor of business administration at Furman University’s Department of Business and Accounting in Greenville, South Carolina. If those managers carry too much weight in upper-level decision making, they may use their power to benefit their own divisions—or boost their own compensation.

McNeil and Smythe examined a national, random sample of 125 companies, representing 300 divisions, in Compustat’s business segment file from 1999. The year 1999 was chosen because it was the first fiscal year that accounting standards required companies to include in their annual reports how their operations were organized.

The two compared “influential” managers with those who carried less weight in their organizations. “Influential” managers shared four criteria: They served on the board of directors, they had served as heads of their divisions for a long period of time, they had a long tenure with the firm, and they earned high salaries. From these four criteria, McNeil and Smythe measured a manager’s lobbying power, or “relative power index.”
While McNeil and Smythe could not observe lobbying activity directly, they found that managers with a high power index receive higher allocations of capital for their divisions than other managers. As a result, the researchers speculate, funds that might better serve the company by supporting stronger divisions often flow to weaker divisions instead.

On the other hand, influential managers who also receive stock options—which are widely criticized—receive fewer allocations for their divisions. “Managers with stock want to protect their own investments,” says Smythe.


**Sometimes It’s Better to Play It Safe**

Many executives live by the old saying, “The greater the risk, the greater the potential reward.” However, recent research suggests that the size of the risk may have little bearing on the reward. Rather, when it comes to executive risk taking, motivation is everything. Executives who take huge risks without the right motivation are more likely to put their projects, their organizations, and their careers in jeopardy.

Decades of research show that risk taking is, indeed, both an art and a science, say Nathan Washburn, assistant professor of management at the Thunderbird School of Global Management in Glendale, Arizona; Marianna Makri, assistant professor at the University of Miami School of Business in Florida; and Luis Gomez-Mejia, a professor of management at the W.P. Carey School of Business at Arizona State University in Tempe. They are currently drafting the paper “Past Performance and Organizational Risk Taking.”

Executives who take risks to break out of ruts, turn around bad situations, or fulfill unmet expectations often take gambles out of desperation. As a result, their leaps of faith are more likely to make matters worse. On the other hand, executives with a history of success who take risks because they want to accomplish meaningful progress or because they believe in their organizations’ potential are more likely to see success.

Says Washburn, “Success reinforces these feelings of confidence, drives up efficacy, and spurs additional risk taking.” For executives examining their own risk-taking behavior, the message is clear: Their potential for reward depends less on how much risk they take and more on why they take it.

**For Most, Recessions Don’t Lead to Ruin**

Economic downturns may have a negative impact on the average household, but they are unlikely to wreck it, say researchers from the Motu Economic and Public Policy Institute in New Zealand and Duke University in Durham, North Carolina.

Steven Stillman, senior fellow at Motu, and Duncan Thomas, a professor of economics at Duke, examined the Russia Longitudinal Monitoring Survey to track patterns of spending and food consumption between 1996 and 2000 among approximately 18,000 respondents. According to the data, the average Russian household experienced a 40 percent drop in income during an economic downturn that lasted from 1996 to 1998. However, while households spent less on food, their caloric intake changed very little.

The research suggests that families adapted to their change in fortunes by eating less expensive foodstuffs, not necessarily by eating less. The data show that during those four years, the average Russian household purchased fewer meats, fruits, and vegetables, but spent about the same on starches and dairy.

“The evidence suggests that individuals and households are very resilient—even in the face of economic upheaval,” the researchers write. They suggest that governments could have a greater impact by focusing their efforts on those hit hardest by short-lived economic shocks, rather than “blanket the entire country with resources,” says Stillman.

Their study, “Nutritional Status During an Economic Crisis: Evidence from Russia,” was published online August 18, 2008, in *The Economic Journal.*
**STUDY BRIEFS**

### MANAGING DYSFUNCTION

No company can expect that all employees will be cooperative “team players.” The key is to manage dysfunctional behavior effectively, according to a study by Michael Cole of Texas Christian University’s Neeley School of Business in Fort Worth, Frank Walter of Rijksuniversiteit Groningen in The Netherlands, and Heinke Bruch of the University of St. Gallen in Switzerland. Companies can try to prevent bad behaviors by communicating strong behavioral norms early on, proactively managing team conflicts, and eliminating negative role models. The paper “The Affective Mechanisms Linking Dysfunctional Behavior to Performance in Work Teams” was published in the September 2008 issue of the *Journal of Applied Psychology*.

### RETAIL DISPLAYS AND “SELF-VIEWS”

A research team that studied the effects of ceiling height on people’s creativity has now looked at the effects of display fixtures in retail environments. Joan Meyers-Levy of the University of Minnesota’s Carlson School of Management in Minneapolis and Rui “Juliet” Zhu of the University of British Columbia’s Sauder School of Business in Vancouver found that a consumer’s “self-view” can affect his or her perception of a retail display. A consumer who is team-oriented may view an object on a wood table as traditional; a consumer who is independent may view an object on a wood table as hip and modern. Retailers may be able to affect shoppers’ perceptions of their products by putting up posters or messages that encourage shoppers to adopt an independent or interdependent self-view, the researchers suggest. “The Influence of Self-View on Context Effects: How Display Fixtures Can Affect Product Evaluations” is forthcoming in the *Journal of Marketing Research*.

### EPM IS UNDERUTILIZED

The Cranfield School of Management in the U.K. has released its Global Enterprise Performance Management Study, sponsored by enterprise software company Oracle. The study surveyed managers at 600 companies in the United Kingdom, United States, China, Japan, and Australia. It found that many global enterprises face challenges in three areas of EPM: evoking passion among their senior managers to deliver EPM across the organization; creating an infrastructure for EPM; and establishing measures of success.

### A Challenge to Bennis and O’Toole

A recent study challenges some of the charges made in “How Business Schools Lost Their Way,” the much-debated 2005 essay published in the *Harvard Business Review*, in which Warren Bennis and James O’Toole argued that business schools had become too focused on research at students’ expense. In response, Peter Golder of New York University’s Stern School of Business and Debanjan Mitra of the University of Florida’s Warrington College of Business Administration in Gainesville decided to quantify the exact impact of academic research on multiple measures of business school performance.

Golder and Mitra looked at data from 57 business schools over 18 years. They found that academic research has a positive impact on how recruiters, applicants, and other academics view business schools. Moreover, they found that 90 percent of that impact occurs within three to six years of the research’s release.

They also found that when a business school’s research output increases by three single-authored articles per year, its student acceptance rate declines by 1 percent, indicating that it has become more selective. In addition, its graduates’ average starting salary increases by more than $750 and its ranking by peer academics moves up by one spot.

These findings counter Bennis and O’Toole’s opinion that students are shortchanged by business schools’ focus on academic research, says Golder. “Academic research builds reputation in tangible and intangible ways, and we now have evidence to support the case.”

Golder and Mitra’s paper “Does Academic Research Help or Hurt MBA Programs?” was published in the September 2008 issue of the *Journal of Marketing*. It is available online at www.atypon-link.com/AMA/doi/abs/10.1509/jmkg.72.5.31.
Technology

Online Course Focuses on Finance

At a time when more people than ever are interested in finance, Yale University in New Haven, Connecticut, is offering a free course on the subject. The course is part of its “Open Yale Courses,” the school’s free online education initiative.

Finance used to be a very esoteric field understood by only a small group of people working in the world’s financial centers, but the field is now of interest to a much wider audience, says Robert Shiller, an economist at Yale who teaches the course.

“With each year that goes by, the concepts of finance are being applied more broadly and involving more people. With electronic technology, it’s becoming more economical to offer sophisticated financial services to everyone,” he says. The subprime crisis and subsequent financial collapse has made it more important than ever that everyone gain an understanding of financial fundamentals, he adds.

“Financial Markets” comprises 26 sessions, which include classes taught by guest lecturers such as Yale’s chief investment officer David Swensen, U.S. Treasury Secretary Lawrence Summers, activist investor Carl Icahn, and Blackstone Group co-founder Stephen Schwarzman.

To encourage the widest possible use of this and any of the other seven courses now available, the courses are covered by the Creative Commons’ Attribution-Noncommercial-Share Alike 3.0 license. This license permits free use or repurposing of the Open Yale Course material by others. Users may download, redistribute, remix, or build upon the content to produce new lectures or other educational tools. The license, however, does not permit commercial use of course content.

“Financial Markets” offers a searchable transcript, reading assignments, problem sets, and a closed captioning option, as well as video or audio files of the 75-minute courses. It is available to anyone through the Open Yale Courses Web site at open.yale.edu/courses.

Vote for Ideas to Change the World

In honor of its tenth anniversary, search engine giant Google unveiled a $10 million project that asked users to submit ideas that could “change the world” by helping “as many people as possible.” Google’s Project 10^{100} (pronounced “Project 10 to the 100th”) accepted submissions until October 20.

The categories included areas such as community, energy, environment, health, education, shelter, and employment opportunities. People suggested ideas that ranged from the Hippo Water Roller, an inexpensive 24-gallon container that can be rolled easily to help people carry water long distances, to a project that would work to connect isolated communities to the Internet.

The company will choose 100 ideas to post on the Project 10^{100} Web site and invites Internet users to vote on the ideas they find most promising. The top 20 ideas will become semifinalists, and an advisory board will evaluate those ideas before choosing five winners. The company pledges $10 million to make those winning projects a reality.

Voting starts January 9 at www.project10tothe100.com.

How Big Is Your Carbon Footprint?

Clean Air-Cool Planet has released its updated Campus Carbon Calculator, a free tool designed to help campus administrators measure their emissions and determine long-term strategies to reduce their universities’ carbon footprints.

Clean Air-Cool Planet partnered with the University of New Hampshire in Durham to create the first version of the calculator. Campus Carbon Calculator Version 6 now offers projections and solutions modules, which help administrators create a cost-saving sustainability plan in formats designed to help them make the plan’s advantages clear to trustees.

In addition, it also provides educational tools that instructors can use to teach students about carbon management. UNH is now using the tool to develop a campuswide climate action plan over the next year.

For more information, visit www.cleanair-coolplanet.org/toolkit.
Financial Times is a vital source of information, analysis, education and illumination in these confusing times. Covering far more than just finance, the FT offers your students current insights from business management to international relations.

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Textbooks Go Hybrid

A new line of business textbooks links the comfort of print with the flexibility of digital.

In an age when students communicate more by keystrokes than pen strokes, one would think that they’d demand electronic textbooks. But when one textbook publisher surveyed students, it found that they still aren’t ready to give up the look and feel of textbooks on paper. However, that doesn’t mean students don’t want publishers to give traditional paper-based textbooks a technological boost. In fact, Cengage’s survey indicated that students wanted their printed textbooks to be more readable and portable. In addition, they wanted them to combine the best of printed and digital materials.

In response, Cengage developed 4LTR Press, a model that supplements printed textbooks with downloadable and printable flashcards, online quizzes, and audio/MP3 downloads. Students can access these materials through the company’s Web site—or even have study questions sent to them on their mobile phones. By moving supporting materials onto the

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Internet, 4LTR Press created textbooks that are more lightweight than traditional textbooks. They adopt graphics, page layouts, and designs that make them look more like a magazine than a traditional textbook.

Titles for business that are available from 4LTR Press include MKTG, covering principles of marketing; BUSN, an introduction to business; MGMT, covering principles of management; and ORGB, a textbook that targets organizational behavior.

Once students purchase the textbook for around $50, they establish a log-in and password on the publisher’s Web site. Then, they can log in to access supplemental materials until the end of the course. Because each textbook requires a special time-limited code to access online materials, students can’t pass their textbooks on to other students at semester’s end. If a student must repeat the course, professors can make arrangements to extend his or her access to the site.

Lois Bittner Olson, a marketing professor at San Diego State University’s College of Business in California, started using MKTG for her courses in fall 2007. Olson says that she appreciates the fact that the textbook streamlines the material without leaving out any concepts. Right before exams, many of Olson’s students use their cell phones and laptops to do one last review of the materials.

Olson hopes that textbook publishers like 4LTR Press soon will integrate their textbook’s online supplemental content with course management systems like Blackboard, so students will not have to go through separate log-in processes with the publishers of each textbook they own. Neil Marquardt, director of 4LTR Press, notes that the company is working on adding that capability.

For information and demos, visit 4ltrpress.cengage.com.
Your Turn

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<th>I What I Would Tell My Past Students</th>
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| Recently I’ve been wishing I could address some of the students I used to teach at Brandeis’s International Business School. I’d remind them about my endless rants on debits and credits, on federal bailouts, on financial models.

I think my students learned key lessons, but it looks like many denizens of Wall Street failed to pay attention when they were in business school. Because every single thing that has gone wrong in the current debacle was studied and put right in our classrooms. All of this has happened before, and it will happen again until we finally learn the lessons of the past.

<table>
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<th>Risk and Return</th>
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| When I was teaching, I liked to draw a risk-return graph on the blackboard and say, “I’ll teach you a year’s worth of financial theory in 30 seconds. When return goes up, risk goes up. That’s all you need to remember about finance.” The students would roll their eyes and then race out of class to tattle on me to their other finance professors.

Since the time of William Duer in 1792, every single financial crisis/debacle/scandal in America has reflected a foolish hope that this basic relationship has been overturned. The bankers who loaned gobs of money to Latin America in the 1970s and early 1980s forgot that the reason for the sky-high interest rates on this debt was unacceptable risk. Those who poured money into Enron in the late 1990s were gleefully anticipating 15 percent growth in earnings every year, never mind that the company had to take bigger and bigger risks in the natural gas trading market to achieve that growth.

Financial mythology holds that old Joe Kennedy realized that stocks had flown too high in 1929 when his shoeshine boy started giving him stock tips. My own “aha!” moment came at a bat mitzvah in Silicon Valley in 1999, when I was seated next to a newly minted millionaire and entrepreneur. He confided that a venture capital firm had just given him $18 million for a Web site that would provide weather forecasts—despite the fact that weather.com was already offering that service for free. The following week, I told my students the story, and I warned them that the Internet bubble was going to burst.

This time, Wall Street should have had its “aha!” moment when banks started offering mortgages with zero percent down and no credit approval process. When markets become stupid, a crash is inevitable.

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<th>Derivatives Fallout</th>
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| Veteran Wall Street banker Felix Rohatyn famously warned in 1994, “Twenty-six-year-olds with computers are creating financial hydrogen bombs.” If Part One of the current mess is the mortgage market’s descent into madness, Part Two is the derivatives fallout.

As I told my students, derivatives themselves are not evil. Derivatives are simply financial products that derive their value from underlying assets, including gold, foreign currency, oil, and stocks. Used for good, derivatives can help companies protect themselves against price fluctuations and stabilize the economy.

Misused, however, derivatives can be hydrogen bombs. I loved to teach the case study of Nick Leeson, who landed at Barings Bank Singapore in mid-1992. His job was to make risk-free trades between the Singapore and Japanese stock markets, to take advantage of tiny price differences.

Instead, Leeson made unauthorized trades in derivative products—and manipulated a secret account to hide his losses. He was viewed as a star trader at the bank’s headquarters in London, lauded for having single-handedly earned one-half of the 1994 profits for the entire firm. Apparently no one was even mildly curious about how these fantastic profits could result from such a low-risk operation.

In the end, Leeson fled, leaving behind a handwritten note that said, simply, “I’m sorry.” Barings—banker to the English royal family and one of Britain’s most venerable financial institutions—was suddenly insolvent. The Bank of England chose not to intervene, and eventually the Dutch bank ING agreed to assume most of Barings’ liabilities for one pound.

Fast forward to 2008 and AIG. Like Barings Singapore, the insurance giant’s London unit was run by an individual who received almost no oversight from the parent institution. Joseph Cassano plunged into the arcane world of derivatives trading, like Leeson, and initially recorded enormous profit margins. But as the credit crisis unfolded in 2007-08, Cassano’s derivatives portfolio suffered $25 billion in losses that swamped the London unit and eventually the entire company. The U.S. government bailed out the insurer for $85 billion.
Blind Faith in Financial Models

Nothing provoked more eye-rolling in my classroom than my disdain for financial models. “I could teach you a fancy model for foreign currency options pricing,” I would tell my students, “but it doesn’t work.” I might add, “Stop trying to quantify the unquantifiable, and have a little more faith in analysis and experience. Common sense trumps models.”

My tirades reached a peak in 1998 with the federal bailout of Long-Term Capital Management (LTCM). LTCM was a hedge fund founded by a group of Nobel Laureates and financial whiz kids, who created a model that enabled them to take huge, highly leveraged risks in global financial markets. For a time LTCM earned fabulous returns, but in the end it foundered on its blind faith in the efficacy of financial models. Remarkably, LTCM’s brilliant models had not taken into account the correlations between markets, especially in bad times; when things go bad, they go bad all over. A lot of things went wrong at once, and the Fed brokered an extraordinary rescue of LTCM by 14 leading banks.

To me, LTCM represented a new low in the annals of U.S. banking. In fact, reliance on models can produce even riskier behavior since it lulls traders into a false sense of security—much like a skier wearing a helmet may ski more recklessly than someone with a bare head.

“And don’t even get me started on the Fed’s intervention,” I would warn. I would point out that this is why banks and traders take excessive risks—because they believe that the government will bail them out in the end. Or else they believe they’re too big to fail (AIG), too connected with other banks to fail (Bear Stearns), or too connected with power brokers to fail (everyone else). Once the risk-return tradeoff is subverted, markets will get stupid again. And again. And again.

It’s the People, Stupid

Occasionally I would reminisce in the classroom about my early days as a “baby banker.” I couldn’t remember all five C’s of credit—collateral, covenants, cash flow, and something else—but I always remembered the most important C, character.

Long after my students have forgotten debits and credits, I suspect they will still remember my story about the CEO of an up-and-coming Southern company with which I worked during my baby banker days. I brought the vice chairman of the bank—my boss’s boss’s boss—down to meet this CEO. But the CEO was distracted throughout dinner by several attractive flight attendants at the next table. He sent over champagne, winked and flirted, and ended the evening by bearing them off to an impromptu party in his hotel.

My boss’s boss’s boss was unamused. “Cut them off,” he ordered me as we drove back to the airport. “I’m not trusting my depositors’ and shareholders’ money to a man who can’t keep his mind on business when one of America’s top bankers comes calling.”

I nearly drove the car off the road. It was many years before I fully came to understand how much character actually counts. But that was before I learned of Tyco’s CEO Dennis Kozlowski, who billed the company for a $6,000 shower curtain for his Fifth Avenue duplex. And before I knew about Wall Street “analysts” who hyped hot new stock issues to their unsuspecting clients while their internal e-mails trashed the stocks as “dogs.”

And what are we to think of Wall Street traders who packaged dodgy mortgages into incomprehensible derivatives with valuations that defied logic—all for the sake of the $30 million Manhattan penthouse or the third home in Vail? Today’s public outrage over executive compensation is nothing more than a rerun of the outrage over Michael Milken’s $550 million pay package in 1987. This outrage distracts us from the real reforms that are required—but market participants do need to feel real pain before lessons can be learned and incentives can be readjusted.

Remedial Studies

Truly, there is nothing new under the sun. Finance wizards who seek enormous rewards must, by definition, be running enormous risks. Finance wizards who put their blind faith in models must, inevitably, be disappointed. And princes of finance who lose their moral compasses in pursuit of absurd riches must, invariably, turn into frogs. Those who do not remember the past are condemned to repeat it—ad infinitum and ad nauseum.

Perhaps we should bring some Wall Street types back to business school for remedial studies. I’m sure my students could help them learn some of the business basics we studied in my classrooms long ago.

Jane Hughes served on the faculty of Brandeis’s International Business School in Waltham, Massachusetts, for 17 years. She currently serves as a consultant and teaches at the State University of New York’s Levin Institute.
Boo kshelf

**Trendy leadership metaphors** abound among today’s business books, but there’s something very compelling about the stories and analogies laid out in *High Altitude Leadership*. Executive consultant Don Schmincke and mountaineer Chris Warner draw parallels between life-and-death expeditions to climb the world’s highest mountains and everyday efforts to survive the world’s ordinary boardrooms. For instance, they say, either enterprise can be destroyed by the same eight dangers: fear, selfishness, an overreliance on tools, arrogance, lone heroism, cowardice, comfort, and gravity. They don’t bother to sugarcoat their lessons. “Both dead climbers and bankrupt companies are found grasping great tools,” they write in the chapter that warns against being seduced by the hottest new products. In another chapter they say, “Selfishness kills people, profits, and possibilities.” The summiting stories that interleave the boardroom tales are absolutely riveting; and the business lessons are sensible, practical, and clearly stated. It might not get readers fired up to climb K2, but it will inspire them to think about how to succeed at other uphill battles. (Jossey-Bass, $27.95)

**Strengths Based Leadership** by Tom Rath and Barry Conchie is a book of multiple parts, all quite interesting. It opens by emphasizing the reasons leaders should build on strengths, not shore up weaknesses. “When leaders focus on and invest in their employees’ strengths, the odds of each person being engaged go up eightfold,” write the authors, who draw on decades’ worth of research from the Gallup organization. Then the book breaks leadership traits into clusters of strengths and provides quick profiles of successful executives who have capitalized on one or more of these characteristics. The last half of the book is basically a blueprint for how any individual can maximize his effectiveness once he’s identified which of the 34 distinct leadership attributes represent his strengths—or how he can manage employees who exhibit those traits. Each book includes a unique access key to an online assessment test to help readers determine where they stand so they can figure out how they can become better leaders. (Gallup Press, $24.95)

**In You Can’t Order Change**, Peter S. Cohan tells the story of Jim McNerney, a Jack Welch protégé at GE who revitalized 3M in his short term there and who has overseen the turnaround of Boeing. While McNerney embodies the “eleven leadership challenges” that form the core of the book, these are largely familiar, but here they’re illustrated by the specific ways McNerney has carried them out. For instance, the chapter on linking pay to profits describes how McNerney reallotted 3M stock options by performance rather than rank. He modified the approach when he encountered an entirely different culture at Boeing. McNerney, writes Cohan, “tailors his approach to each company according to the values that he feels he needs to reinforce.” The book succeeds as a detailed look at a thoughtful leader. (Portfolio, $24.95)

If you’re an entrepreneur, don’t even think about trying to launch a startup without reading Guy Kawasaki’s *Reality Check*. The subhead calls it an “irreverent” guide to outsmarting the competition, and never was a word so apt. But there’s plenty of plain-spoken, tough-love, hard-to-hear advice bundled into these short chapters largely drawn from Kawasaki’s blog. Are you planning an hourlong PowerPoint presentation to possible investors? Keep it to 20 minutes, because setting up the projector won’t go smoothly and people will arrive late. Are you convinced no one else is trying to launch a product similar to yours? Then there’s either no market for it or you’re too clueless to understand the competition. Do you think that Oracle is no threat to your new company? “Larry Ellison has his own jet. He can keep the San Jose airport open for his late-night landings,” Kawasaki reminds the boastful entrepreneur. “Meanwhile, you’re flying on Southwest out of Oakland and stealing the free peanuts.” Frank contributions provided by lawyers, academics, and other authors add even more value to this blunt, honest, and engaging book. (Portfolio, $29.95)

If you think the economy is bad now, just wait. That’s the dark prediction made by Harry S. Dent Jr. in *The Great Depression Ahead*. He presents piles of historical data to make his point, drawing on overlapping boom-and-bust cycles in...
anywhere, from demographics and technology to geopolitics and climate change. He charts the past courses of 30-year commodity cycles, 34-year geopolitical cycles, 80-year technological cycles, 40-year generational cycles, eight- to nine-year terrorist cycles, and more—and notes that they’re all due to turn downward between 2009 and 2010. “We are about to enter the first winter season in our economy since the 1930s.” It’s not all gloom and doom; Dent does offer investing strategies to survive the downturn, and he does present the coming crash as an almost beneficial season of life. “What is critical is that you see this next great depression as inevitable and necessary, especially for your kids’ lives and careers well into the future.” It’s a scary book—but it achieves its goal, which is to make the reader think hard about the future. (Free Press, $27)

Any CEO with global aspirations has given some thought to entering the markets in China and India—but a bad entry strategy is worse than no strategy when it comes to doing business in these vast, populous, and rapidly changing nations. Anil K. Gupta and Haiyan Wang offer deep insights in *Getting China and India Right*. Gupta, a business professor at the University of Maryland, and Wang, managing partner of the China India Institute, say both countries are critical to global commerce because both represent “four stories rolled into one.” That is, they offer huge and rapidly growing markets; cost-efficient labor platforms; pools of sophisticated workers with technological expertise; and the right conditions to launch “a new breed of fearsome global competitors.” The authors present eye-popping data about labor costs, GDP, and consumption patterns along the entire consumer pyramid, as well as predictions about how quickly these numbers can change. And they come to an unadorned conclusion: “Any Fortune 1000 company that is not busy figuring out how to leverage the rise of China and India to transform the entire company runs a serious risk of not being around as an independent entity within ten to fifteen years.” (Jossey-Bass, $29.95)

Members of the boomer and traditionalist generations may find it intolerable to hear how “millennials” expect to be treated at the office. “I feel strongly that different bankers develop at different paces, and those who excel should be both advanced and compensated according to ability,” says a twenty-something young analyst at Merrill Lynch. He’s typical of his generation, at least as profiled by Ron Alsop in *The Trophy Kids Grow Up*. With this intriguing and insightful look at the newest generation to enter the workforce, Alsop examines how millennials and corporations are figuring out exactly what to expect from each other—and whether they can coax the other one to change. He details the millennials’ strengths (they’re optimistic, inclusive, globally aware, and civic minded) and weaknesses (they’re impatient, arrogant, fickle, and easily bored), and gives tips on how to keep them engaged at work. He also describes the efforts some companies have made to “introduce this ‘new species’ into the workplace.” It will be fascinating to watch the story unfold in corporations around the world. (Jossey-Bass, $24.95)

Procter & Gamble’s Pampers line of baby diapers didn’t really take off until the company changed its focus from fulfilling the simple function of “keeping the bottom dry” to the grander goal of developing healthy babies. The company began investigating ways to improve sleep and enhance brain development; it partnered with UNICEF so that every purchase of a bag of Pampers bought a vaccination for a baby. P&G had found the product’s purpose—which had the side effect of turning Pampers into an $8 billion brand. Purpose is the central theme of *It’s Not What You Sell, It’s What You Stand For*, written by Roy M. Spence Jr. with Haley Rushing. “If you have a purpose and can articulate it with clarity and passion, then everything makes sense and everything flows,” write the authors. “If you don’t have a clear and easy-to-articulate purpose, everything feels a bit chaotic, harried, and maybe even meaningless.” Illustrating with examples from companies such as Southwest Air, Whole Foods, BMW, and John Deere, Spence and Rushing show how defining a purpose can help a company energize its workforce, outshine its competitors, and sometimes change the world. (Portfolio, $25.95)
The graduate students who manage the Cougar Investment Fund at the University of Houston’s C.T. Bauer College of Business in Texas have had front-row seats for Wall Street’s recent wild ride. The lessons they’ve learned promise to be long-lasting, says Tom George, director of the school’s AIM Center for Investment Management.

“We’ve all learned just how much the market depends on whether companies have the cash flow to pay their liabilities,” says George. “As the market was in free fall, our students could look at their holdings and see that the companies whose stocks fell the most were the ones with the least liquidity.”

These students had even more reason to feel the pressure from Wall Street’s precipitous drop—their losses had implications outside the classroom. While the money for most student-run funds comes from school endowments, money for the Cougar Fund comes from outside investors. Established in 2002 with $1.6 million from 19 investors, the fund now has 43 investors and is valued at approximately $8 million.

As a limited liability investment company, the fund hires an attorney, auditor, and accountant to help students navigate the complexities of its management. Students manage the fund under one primary constraint: It must remain fully invested in the market at all times. “Investors thought it was too risky to allow students to move between cash and stocks,” George explains.

Each September, the Cougar Fund course typically admits 16 students who commit to the fund’s management for 12 months. The students are organized into four teams, each focusing on a particular type of investment such as small growth or large value. For the first six months, team leaders from the prior year’s class coach incoming students.

“Imagine running a business where the staff is highly skilled but has a 100 percent turnover rate every year,” says George. “The program is designed so that new students have time to learn the analysis and decision-making process.”

So far, in aggregate, the Cougar Fund had shown a 16.6 percent rate of return as of November 2008, compared to a 2.8 percent return for the S&P 500. In addition, four students from the Cougar Fund recently placed first in the Chartered Financial Analyst Institute’s Global Investment Research Challenge for their yearlong analysis of Men’s Wearhouse, a publicly traded men’s apparel company.

About two-thirds of the students in the course return to or switch to finance careers after graduation. Their experience with the Cougar Fund gives them the kind of knowledge that Wall Street needs right now, says Ron Singer, managing director of the Cougar Fund. Because students manage money from real investors, they learn quickly that their decisions have real consequences.

“Students start the course with a relatively naive approach to finance and get more sophisticated as the year goes on,” Singer says. “It’s a real transformation.”

Students learn just how much the market depends on whether companies have the cash flow to pay their liabilities.

—Tom George, University of Houston