

Economic Mayhem, & MBAs: A Curious Coincidence?



By Dr Marie-Aimee Tourres

In the current gloomy economic situation, one can look to the education business and more particularly at business schools for good news and positive numbers. It is a fact that MBA programmes and executive developments increase in popularity during an economic downturn. Rising MBA applications are a counter cyclical phenomenon.

Yet, this MBA upbeat trend may be seen as ironic. The current global situation, especially in the US banking sector, has been provoked in part by MBA holders. Let's have a look at the situation for curiosity's sake.

Not All Bad News

MBA tuition at schools like Wharton, Harvard and Stanford costs approximately \$32,000 (RM116,160) per annum. In Europe, the London Business School charges EUR53,000 (RM257,050) for a 15-month MBA. INSEAD charges EUR51,000 (RM247,350) for a one year programme while IMD, a top business school in Lausanne, Switzerland, charges the same for its one-year course. Cranfield and Manchester Business School are a relative bargain at EUR33,000 (RM160,050) for a one-year MBA and £33,500 (RM180,230) for a 18-month MBA respectively.

In spite of this, according to an article in the Financial Times, business schools say that MBA applications increase during or just before a downturn, such as the one facing most economies right now.

A recessionary environment can make an MBA investment even more attractive than usual. Conventional wisdom is that the opportunity cost of an MBA in a slowing economy is lower, especially for someone uncertain about his or her short-term career prospects, or someone made redundant. An MBA also holds significant potential for increased future earning power.

The current environment of extremely low interest rates is a further strong inducement. Any loan will require minimal interest payments, so the higher earnings after the MBA can be used to pay back the capital.

The Irony Is...

While noting that MBA studies are becoming increasingly popular for the reasons above, it is also interesting to look into the educational background of some of the key protagonists behind the recent financial meltdown.

CNN has posted on its website the "Ten Most Wanted: The culprits of the Collapse", a series of short videos of the ten most notorious individuals involved. Time Magazine has also published its own hot list: "25 People to Blame for the Financial Crisis". Each is presented with a police-file type mugshot. As you read Time's choices, you are asked to say who deserves the most blame and the least, in its "Blame Game".

The schools where these 'stars' obtained their education are named in the article: "The MBAs of the Meltdown Where did those bankers go to business school?" which was posted on www.wowwow.com

In The Frame

Undoubtedly quite by coincidence, it seems that many of the "who to blame" executives studied at the ultra elite Harvard Business School. Four businessmen, now famous for all the wrong reasons, hold MBAs from this prestigious institution.

The first is former Chairman & CEO of Merrill Lynch, Stanley O'Neal, ousted after the firm posted its first US\$8 billion in losses due to the sub-prime crisis, but who then received a severance package valued at the time at US\$161 million in stock and options.

His successor, John Thain, who managed to sell Merrill Lynch to Bank of America was forced out when it was revealed that he spent US\$1.3 million to decorate his office, and according to The Wall Street Journal, asked for a 2008 bonus of US\$5-10 million.

Another is former Chairman of the Securities and Exchange Commission, Christopher Cox, who was head of the organisation that missed Bernie Madoff's massive Ponzi Scheme, while the fourth is Andrew Hedley Hornby, the former CEO of HBOS.

Although not MBA holders, also from Harvard are the former CEO of Fannie Mae, Franklin Raines, who took "early retirement" amid an accounting investigation and his successor Daniel Mudd. Mudd went on to increase the number of subprime mortgages it guaranteed until the government dismissed him in 2008.

New York University's Stern School of Business has a record here as well with two MBA holders who can be fingered out. The first is former

CEO of Lehman Brothers Dick Fuld, the 158-year-old investment bank, now in ruins. Kathleen Corbett is another. She ran ratings agency Standard & Poor's as they slapped Triple-A ratings on risky pools of loans, luring investors all over the world to invest in now-worthless Collateralized Debt Obligations.

Forgetting Their Lessons?

If these top executives appear to have forgotten their MBA classroom lessons especially on corporate ethics and risk-management, what about those involved in the US Administration during the period or those put in place recently to save the sinking ship?

Here again Harvard Business School leads. Aside from former US President George W. Bush who himself holds a Harvard MBA, his then-secretary of the Treasury, Henry Paulson, comes from the same background. Paulson was an opponent to any government regulation of Wall Street and is at the origin of the US\$750 billion unregulated Troubled Asset Relief Plan (TARP). His choice to let Lehman fail after bailing out Bear Stearns and AIG has been pinpointed for having ignited the subsequent financial meltdown.

Turning to the new regime, holder of a Harvard PhD and former President of Harvard University, Lawrence Summers is current head of President Obama's National Economic Council. He was previously Deputy Secretary of the Treasury under Bill Clinton. A financial disclosure report revealed in April the receipt of US\$5.2million last year working for a £30 billion hedge fund and that he was paid more than US\$2.7million in speaking fees by several troubled Wall Street firms.

These are just some of the examples. There are several others. One can really wonder what most of them learned in the classroom. Is the MBA syllabus to blame or is the reality of life so different from the case studies and theory or can greed push anyone out of the window?

For those considering doing an MBA - and it is still an excellent qualification to hold - you may wonder if the crisis has any influence on the classroom teaching and MBA curriculum. Some business schools have started to move in this direction, Manchester Business School being one. One example to leave you with a smile: since 2008, Harvard Business School has developed some new case studies among them being: Lehman Brothers, Merrill Lynch and Fannie Mae!

For further information on studying for a Manchester Business School MBA in Malaysia contact Dr Marie -Aimee Tourres on marie@sunway.edu.my