Report of the Crisis and the Curriculum Committee

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Executive Summary

The committee was formed by the Dean in May 2009 with a charge to recommend curricular changes that (i) address the current financial and economic crisis and (ii) use the crisis as a vehicle to foster integrative thinking that cuts across disciplines. Through its discussions of the causes and consequences of the crisis, the committee identified the following themes in broader lessons to be learned from the crisis:

- Agency, incentives, compensation and governance;
- Measuring leverage and risk;
- Bubbles, overconfidence and behavioral biases;
- Regulation and the changing role of government in business.

These themes are interrelated, and the crisis also points to the importance of connecting global trends and imbalances with business decisions.

The committee's main recommendations in response to its charge are as follows:

- The creation of an integrative, team-taught course on *The Future of Financial Services* in the wake of the crisis; in addition to serving as an immediate response to the crisis, the course is a potential template for other integrative courses;
- The development of an integrative case on the collapse and future of the auto industry, with modules to be taught across multiple core and flex-core courses;
- An Orientation module on the crisis for incoming students;
- New mechanisms for encouraging integration across disciplines, including a call for proposals from faculty;
- The development of topical materials in courses to address the themes identified above.

These recommendations are further developed in the report.

1. Background

The committee was formed by the Dean in May 2009 with a charge to recommend curricular changes that

- address issues raised by the current financial and economic crisis and
- foster more integrative thinking that cuts across disciplines.

These objectives are closely related because an understanding of the crisis necessarily draws on many dimensions of business, including financial innovation, corporate governance, risk management, economic policy, regulatory and accounting standards, and individual decision making. And whereas some of the specific details that have featured prominently in discussions of the crisis (for example, the structuring of collateralized debt obligations) may fade in significance over time, the importance of integrating ideas from different disciplines is a permanent feature of business education. It remains, moreover, one of the greatest challenges for a diverse faculty, and one that requires a sustained effort.

As a step toward recommending changes, the committee first gauged the School's response to the crisis to date, which has been robust. Over the past year, the School has run a series of community forums on the economy with presentations and perspectives from faculty in all five divisions. In November 2008, the Bernstein Center ran a prominent conference on the crisis with a distinguished slate of internal and external speakers. In the Summer 2009 term, the School ran a new course on the crisis, taught by former Lehman Brothers chief legal officer Thomas Russo. Several members of the Columbia Business School faculty have been active participants in broader discussions of the crisis through their research and contributions to policy debates.

The committee surveyed the faculty to find out how the crisis has been covered in existing courses over the past year. Not surprisingly, faculty have been very quick to bring timely topics into the classroom and develop new teaching materials that connect specific aspects of the crisis with courses in virtually all areas of the School. To highlight the work of faculty in addressing the crisis in their courses, the committee has created an Angel "course" that collects cases and other relevant teaching materials. These materials will be accessible to all Columbia Business School students and faculty.

While the crisis itself has been well covered, little has changed to unite perspectives across disciplines: we could do much more as a school to "connect the dots." These observations reinforce the view that the committee's most important role lies in identifying broader educational objectives and initiatives that cut across disciplines.

2. Lessons from the Crisis and Educational Themes

The causes and consequences of the current crisis will undoubtedly be debated for years to come. The margins of debate raise questions of broader significance to business education that go beyond the specific circumstances leading up to the crisis. The committee has identified the following themes as particularly important:

Agency, incentives, compensation and governance: Unsuitable mortgages, opaque securitization, compromised credit ratings, and large bonuses tied to short-term gains have all featured prominently in the unfolding of the crisis, and all reflect problems of agency, incentives, and governance. Excessive complexity can become dangerous opacity. The pipeline leading from the origination of subprime mortgages through the banking system to the capital markets has been fraught with conflicts of interest and separations between actors and consequences. The incentives created by the compensation system in financial services and by proposals for changing that system have been at the center of some of the most heated debates surrounding the crisis.

Measuring leverage and risk: Prior to its demise, Lehman Brothers, like all the leading investment banks, was a phenomenally leveraged business, and its leverage produced both exceptional profits and exceptional vulnerability to risk. Capital requirements for banks, despite their evolution towards greater sophistication, failed to adequately gauge risk and capture new forms of leverage. Beyond the financial system, excessive leverage has contributed to and magnified the crisis through high levels of debt at the household and national levels.

Bubbles, overconfidence and behavioral biases: The sharp declines in the stock market and the real estate market at the center of the crisis have renewed a longstanding debate over the extent to which markets can be understood as the result of rational decision making and the role of behavioral biases, such as overconfidence, in shaping financial and economic outcomes. The real estate bubble leading up to the crisis, like previous bubbles, has raised questions about the extent to which markets are efficient and driven by fundamental value. An understanding of consumer financial decision making and behavior is likely to play a more prominent role in future financial regulation – for example, in redesigning disclosure requirements for mortgage lending.

Regulation and the changing role of government in business: The financial crisis cannot be understood without an examination of government actions before, during, and after the crisis. A monetary policy that kept interest rates low, a regulatory regime with a high degree of confidence in market discipline, and programs to encourage home ownership were significant in the lead up to the crisis. The Treasury and Federal Reserve have taken unprecedented and controversial measures to try to stave off a worsening crisis – measures that are likely to have lasting effects on the economy and on reshaping the regulatory landscape. Political acumen has had newfound importance in separating surviving and failing financial institutions. Fannie Mae, Freddie Mac, and even General Motors have been put in government receivership. All of these developments suggest a new prominence for the role of government in the world of business.

These themes are interrelated, and the crisis also points to the importance of connecting global trends and imbalances with business decisions. The themes cut across virtually all areas of the School. Some concepts fit well in individual courses – and this report makes some specific suggestions below – but the School's broader objective should be to have students connect ideas across disciplines and courses – to see, for example, how monetary policies in the U.S. and China, conflicts of interest in the lending and securitization pipeline, investor psychology, reduced capital requirements and increased leverage for banks worked together to produce the worst financial and economic crisis since the Great Depression.

3. Recommendations

To address these educational themes and to foster greater integration, the committee recommends the following initiatives:

1. The creation of an integrative, team-taught course on *The Future of Financial Services* in the wake of the crisis; in addition to serving as an immediate response to the crisis, the course is a potential template for other integrative courses;
2. The development of an integrative case on "managing for fundamental value creation" utilizing critical decisions surrounding the collapse and future of the auto industry, with modules to be taught across multiple core or flex-core courses, to highlight the connections among them;
3. An Orientation module on the crisis for incoming students;
4. New mechanisms for encouraging integration across disciplines, including a call for proposal from faculty;
5. The development of topical materials in courses to address the themes identified above.

These recommendations are further developed in the rest of this section. The recommendations reflect the committee's view that, to a large extent, individual faculty members have been quick to incorporate aspects of the crisis in individual courses, and that additional School-wide efforts should put particular emphasis on integration across fields.

3.1. An Integrative Course: *The Future of Financial Services*

The proposed course should provide students with an understanding of the financial crisis and go beyond that to challenge students – and faculty – to envision the future of the financial services industry in the wake of the crisis. To stress the interdisciplinary nature of this question, the committee recommends that the course be team-taught by faculty from multiple divisions and, based on informal conversations with colleagues both in and outside the committee, the committee is confident that there is sufficient faculty interest to staff the course. The detailed course content should be determined by the specific faculty teaching the course, but the committee's recommendation is that the course address the following types of issues:

- What are the origins of the current crisis? How is it similar to past crises and how is it different?
- What distinguishes successful and unsuccessful firms through the crisis?
- What is the future of specific businesses, such as investment banking, consumer finance, securitization, credit rating, and asset management?
- What is the status of the efficient market hypothesis? What other frameworks are available for analysis?
- How can governance, incentives, and compensation be restructured to enhance the stability of the financial system without unduly limiting growth?
- How should regulatory and accounting standards evolve in response to the crisis?

The committee recommends that students in the course undertake forward-looking projects; for example, students might identify a new business opportunity in the wake of the crisis or propose a regulatory response to a specific problem.

The committee believes strongly that for the course to be successful in achieving integration, all participating faculty must be fully invested in all aspects of the course and should, in particular, attend all class sessions.

The proposed course is tentatively slated for the first half of the Spring 2010 semester. The committee views this course as a potential template for future integrative courses on big issues (e.g., energy and the environment, shifting world demographics) with profound implications for the future of business that do not fit neatly into any one discipline. The expectation is that, through experimentation, the School will learn how to better deliver integrated content.

3.2. Integrative Case on the Auto Industry

The goal of the case will be to use the collapse of GM and Chrysler and the future of the auto industry as a vehicle for getting students and faculty to think about a business problem from multiple perspectives. The decline of US auto manufacturers reflects an overreliance on questionable analysis and a lack of attention to fundamental value, both of which are tied to the broader origins of the crisis discussed in Section 2. The auto industry cuts across all areas of the Business School, making it an ideal candidate for an integrative case. A case on the auto industry diversifies the School's response to the crisis beyond banking and Wall Street, while tying in to the financial crisis through, for example, GMAC's aggressive expansion into mortgage-backed securities.

The proposed case will have an introductory overview, followed by course-specific modules taught in various core and flex-core courses. Issues of governance, risk, overconfidence, and the role of government are evident in the evolution of the industry; the overarching theme of the case will be fundamental value creation, a focus that cuts across accounting, finance, economics, management, marketing, and operations. Members of the committee have been meeting with teaching teams from core and flex-core courses to identify topics in these courses that fit with the overall plan for an integrated case. The committee has also organized a session with an industry expert and additional sessions are planned for both faculty and students.

The committee does not believe that inclusion of a module on the auto industry should be made mandatory for core courses – indeed, imposing pro forma disconnected references to the industry would run counter to the objective of true integration. The committee recommends that each core teaching team make a good faith effort to determine if it can meaningfully participate in the case in fulfilling the course's educational objective. The writing will be done primarily by Bill Duggan and CaseWorks staff in partnership with the teaching teams and with overall direction from Trevor Harris.

Through a focus on fundamental value, the case will be directly relevant to those pursuing careers in consulting, investment banking, investment research, and industrial corporations. But all students should benefit from experiencing a truly multi-disciplinary approach to understanding a major company.

3.3. Orientation Module

The committee has recommended that a session be added to Orientation to provide all incoming students with background on the crisis. The session should also show students how their MBA experience (and the core in particular) will better equip them to understand the crisis. Wei Jiang has designed this module and delivered it to all entering students on September 1.

3.4. New Mechanisms for Encouraging Integration

A Call for Proposals

Nobody has a monopoly on good ideas, and, indeed, the committee believes that the most successful efforts for substantive integration will result from "bottom-up" initiatives driven by faculty interests and teaching needs. The committee therefore recommends that the dean's office send a "call for proposals" to the faculty for curricular projects (e.g., cases or courses) that cut across divisions. The committee particularly recommends projects that address the themes in Section 2, but other integrative projects should also be encouraged and supported. For example, faculty members from two different divisions might propose a course on the role of government in business; faculty from marketing and economics might propose a course on analyzing consumer financial decision-making and protection; faculty from management and finance might collaborate on a case contrasting the failed and surviving investment banks.

Light Integration through Greater Communication

Although much of this report focuses on integrative efforts that require substantial faculty time and commitment, the committee also sees opportunities for valuable yet comparatively easy improvement in integration through enhanced communication across disciplines. The committee recommends that the School deploy a variety of tools to encourage this type of "light" integration, particularly in the core. Specific proposals include the following:

- Once per semester, each core course teaching team meets with one other teaching team over coffee or lunch to share information about their courses. Pairing should initially focus on courses that run at the same time and with a high potential for complementarity. The core course coordinators should meet in the near future to initiate this program and determine the pairings for this fall and spring terms.
- New faculty teaching in the core are encouraged to attend other core courses, potentially earning teaching credit by doing so;
- "Take a colleague to class" day, in which faculty invite a member of a different division to co-teach a class in the core, bringing a different perspective to a topic;
- Core-course coordinators compare syllabi to look for opportunities for coordination or even just opportunities for faculty in one course to mention relevant ideas from other courses;
- Encouragement for co-authored cases across divisions.

The committee recognizes that some efforts along these lines have been made in the past without much success. The committee nevertheless believes that these types of initiatives can be successful and beneficial if the School makes a sustained commitment to advancing them and to encouraging greater communication between teaching teams. The committee recommends that the Samberg Institute be given responsibility for maintaining these initiatives and publicizing accomplishments in coordination in the core.

3.5. New Course Materials

The committee recommends that CaseWorks work with faculty to identify opportunities to highlight the themes listed in Section 2 of this report. Specific areas in which the committee sees promising opportunities include the following:

- The flex-core course on *Strategy, Structure and Incentives* is developing materials on compensation and incentives;
- The contrast between the survival of Goldman Sachs and Morgan Stanley and the demise of Bear Stearns, Lehman Brothers, and Merrill Lynch presents an opportunity for a case study that combines management and finance;
- A comparison of risk management cultures and governance structures across financial firms provides another example combining finance and management;
- Faculty from behavioral decision making and finance could collaborate to add, for example, to the discussion in the *Capital Markets and Investments* course on how investors form portfolios.

The committee is not recommending changes to the School's core curriculum. But the committee does recommend that each core course and flex-core teaching team examine how the current financial and economic crisis affects the underpinnings and relevance of the topics covered in these courses, particularly from the perspective of the broader themes identified in this report. Similarly, the committee recommends that faculty teaching *Capital Markets and Investments* consider expanding coverage of the role of financial institutions in the capital markets.

As noted in Section 1, the committee has created an Angel "course" that collects cases and other teaching materials either directly related to the crisis or addressing the broader themes in Section 2. These materials will be accessible to all Columbia Business School students and faculty. Relevant new materials should be added as they are produced.

4. Follow Up

The committee recommends that the dean's office reconvene the committee to assess progress on the recommendations in this report in approximately one year.

5. Concluding Remarks

The current financial and economic crisis has brought widespread hardship through unemployment, home foreclosures, losses in savings, and a decline in confidence in the banking system. The effects of the crisis will be long-lived, as will the debates over its causes. The crisis presents the greatest challenge faced by at least a generation of business school scholars and educators. Columbia Business School can take pride in its faculty's engagement in meeting this challenge in the classroom, in scholarly exchanges, and on the national stage.

The School can do even more to meet this challenge and to turn the crisis into an opportunity to bring greater integration to its teaching. Integration does not come naturally. It runs counter to the specialization that characterizes faculty training and research. But the crisis is a reminder that the world needs business school faculty and graduates that can think broadly as well as deeply. This report presents the committee's recommendations for fostering integration in the wake of the crisis. The committee believes that all the initiatives included here will help the School; but long-lasting integration will not be achieved in a single step. It must instead become part of the School's culture through continuing efforts.