

: Marketing Faculty Reflect on the Economic Crisis

INTRODUCTION

As the international economic crisis continues to unfold, its effects are being felt across all sectors of the economy. With the failures of major financial firms, the ongoing decline of the auto industry, the Obama administration's efforts at a government response, and speculation about a new regulatory structure, major changes are afoot in the marketplace. Business faculty are becoming increasingly aware that these market changes may have serious effects for the business curriculum as well. Indeed, with the recent increase in MBA program applications, an altered curriculum may reach a greater than ever number of future managers.¹ The economic crisis challenges faculty to use their research to make sense of its causes and effects, and to use their teaching to help students understand current events while preparing them as managers in a changed landscape.

This *Closer Look* is the second in a series of white papers that examines how business faculty are responding to the economic crisis, and how they are thinking about its long-term effects. The series aims to spark brainstorming and create dialogue about how business education can best respond to the crisis, particularly as concerns its social and environmental effects.²

In discussing the events that led to the economic crisis, the faculty interviewed for this paper acknowledge that Marketing practice played a role in leading to widespread defaults on home loans. However, they also point out that the sale of home loans to customers who could not afford them ran counter to the Marketing's fundamental mission. As **Janet Wagner**, Associate Professor of Marketing at the Robert H. Smith School of Business at the University of Maryland, puts it, these actions "violated the basic tenet of marketing: that you should offer your customers products of value that meet their needs." Nonetheless, faculty believe that the crisis has brought issues to the fore that can lead to better teaching and research. They raise questions with implications for marketing practice, the academic discipline of marketing, and business academia as a whole. Their thoughts on these questions and others are summarized below.

- What skills do current students need to be effective marketers in a down economy?
- What questions about the ethical aspects of Marketing and the social responsibilities of companies have been brought to the fore by the current crisis?

STUDENT INTEREST AND CONCERN

The faculty interviewed for this paper report significant interest among their students in understanding the economic crisis and its effects on Marketing.

At Villanova University, student interest has resulted in an interdisciplinary, team-taught seminar on the financial crisis available to graduate students and undergraduates alike from across the university community. **Ronald Hill**, Senior Associate Dean and Professor of Marketing and Business Law at the

¹ See Alison Damast, "MBA Applications Surge Again," *BusinessWeek*, August 27, 2008 at http://www.businessweek.com/bschools/content/aug2008/bs20080826_158181.htm

² To read "Finance Faculty Reflect on the Financial Crisis," please go to <http://www.aspenbce.org/documents/Closer%20Look%20-%20Finance%20-%20Financial%20Crisis.pdf>

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Villanova School of Business, is involved in teaching this class. According to Professor Hill, the financial crisis is causing business students to think differently about the business endeavor: “They come into the class relatively naïve, thinking ‘We have a government and we have oversight in place, so why didn’t it work?’ There’s a belief that a free market economy will self-regulate, but in the class they start to look critically at the system, and ask where the failures took place—was it big banks, or Wall Street? Why didn’t the government help to curtail excesses? These are hard questions.”

Madhu Viswanathan, Associate Professor of Business Administration at the College of Business at the University of Illinois Urbana-Champaign, has found that the economic crisis is helping his students to understand class lessons more vividly. He says, “I teach a class on product and market development in a subsistence marketplace. Students try to understand what it’s like to live in poverty, looking at both the U.S. and India. The economic crisis has hit Champaign County hard. I’ve been teaching this course for a long time, but the message is coming home this year more than usual. The students know you don’t have to go to the other side of the world to see poverty.”

According to **Daniel Korschun**, Assistant Professor of Marketing at Drexel University’s LeBow College of Business, “Students are very interested in how companies are attempting to adapt to changes in the market, which are very severe—the most severe that it’s been in many of their lifetimes. They’re also apprehensive about their own careers, and the kinds of opportunities that will be available to them.”

Other faculty note a shift in the way the Marketing profession is perceived by students. “At Stern, a large number of students are interested in finance,” says **Priya Raghuram**, Professor of Marketing at New York University’s Stern School of Business. “But with all the problems that Wall Street is having, now is a good time to show the importance of studying marketing—of understanding how consumers make decisions and purchase financial products, and how traders make decisions. Students can see that understanding these processes better could have led to better recognition of risks.”

MARKETING IN A DOWN ECONOMY

One significant and practical way in which the faculty interviewed believe that marketing teaching should be adapted to respond to the economic crisis is through a focus on the ways that companies’ marketing practice can respond to the different set of challenges that marketers will face in the current environment.

In the face of what will likely be increased scrutiny on marketing expenditures, **Glen Urban**, Professor of Management and Dean Emeritus at the MIT Sloan School of Management, believes students should understand the continued importance of innovation. “This term I’m teaching a course on marketing new products. We’re looking at the auto industry, and we’re considering the question of how, in a distressed industry, you can best sell a product that people need, but don’t necessarily want. For example, people don’t want a small hydrogen vehicle, but for the sake of the environment they may need it...If anything, innovation is more important in this environment because if you want to sell products, you need to excite people.”

In a down economy, it’s also important for students to be learn to be flexible in the way they frame product benefits and value to consumers, according to **Ravi Dhar**, George Rogers Clark Professor of Management and Marketing at the Yale School of Management and Director of the Yale Center for Customer Insights. He says, “We do project-based courses with students and companies, and it’s interesting to see how the crisis has changed the ways that companies talk about their benefits and services. For example, when you’re marketing a credit card, do you focus on how easy it is to get credit, or how easy it is to track spending? Or perhaps a large screen TV is now more attractive to people who are staying home more, and going out less. Being able to link a product to a message that’s relevant in a crisis can distinguish that product.”

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Priya Raghuram views the downturn as an opportunity for companies to win customers through CSR-related initiatives such as green products, ethical sourcing, and positive employee working conditions. She says, “A company like Walmart makes economic sense for a lot of people right now, and is working on building a line of environmentally friendly products. Walmart can use this opportunity to build customer loyalty within a group that previously has had conflicting views about the company.”

SOCIAL RESPONSIBILITY AND MARKETING

In addition to a practical focus on marketing in a down economy, those interviewed also believe that the economic crisis is leading marketers and faculty to focus greater attention to how companies can deliver value to individuals and society, and how the tools of marketing can contribute positively to an improved consumer and regulatory environment.

Building Relationships

At the firm level, Daniel Korschun believes that companies can develop a greater stakeholder focus by incorporating Marketing-derived knowledge throughout company operations. “There’s a lot of insight that Marketing can bring in assessing relationships with the consumer as well as other constituents of the firm. This can include, for example, taking a longer-term, more relational approach with investors and employees. Rather than just running the company from quarter to quarter, marketers can help to broaden the perspective away from short-term profits, to a greater focus on providing long-term value. So one of the things I teach in my class is that managers should constantly assess the quality of their relationship with all constituents.”

Janet Wagner points to the “customer equity” model—which looks at a company’s relationship to the customer over his or her lifetime—as a useful tool for teaching students to consider a relationship-based approach to marketing. She suggests that the three core elements of this approach can help students to understand the notion of marketers’ responsibility to their customers. “First, you offer customers value, in the form of products that genuinely benefit them. Second, you bring them brands they like from corporations they view as reputable. Third, you offer them a relationship that is long-term in which they know they can trust your brand. This shifts the focus from a transactional emphasis that doesn’t necessarily take into account the notion of responsibility, toward a relational emphasis in which it’s very important to build customer trust.”

Ethical Questions

Most of those interviewed believe strongly that the sale of home loans to customers who did not fully understand and could not afford them highlights serious ethical concerns about how marketers should use the field’s base of knowledge about consumer decision-making. These ethical questions should be explored in teaching and research.

According to **John Lynch**, Roy J. Bostock Professor at the Fuqua School of Business at Duke University, “Faculty will use the way that sub-prime loans were sold as a negative example in consumer behavior and decision making classes for a long time...As marketers, we understand that people are not foresightful—they’re very present-biased. Studies show that people are willing to accept a lesser payment sooner rather than a larger payment later, particularly when the options are close in time. It’s very easy, for example, for people who really want to get into a house right now to discount the future very heavily and only really see the rewards that are right in front of them.”

Regulations and Government

However, Marketing’s understanding of these pitfalls can be used to help customers make better decisions, and can play a useful role in crafting public policy. A number of the Marketing faculty interviewed believe that new regulations are necessary, and that Marketing scholars can use their knowledge to contribute productively to crafting these regulations. According to Professor Lynch, “There’s a need for better disclosure and recommendation systems. The current versions come too late, and in the wrong form. Public policy can help in this regard. Disclosure systems need to be timed in

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light of what we know about consumer psychology so that people are open to seeing that they should consider some alternative to the loan—or house—that may be too risky or more than they can afford.”

Paul Bloom, Adjunct Professor of Social Entrepreneurship and Marketing at Duke University’s Fuqua School of Business, believes that new regulations and changes in the marketplace will likely lead to new research, and new teaching in Marketing. “In the 1970s, changes in regulatory activity altered the way marketing was taught. At the time, these changes were in response to an increased focus on consumer product safety... We’re poised right now to see changes in the ways that food and drugs are regulated. As the agencies involved in financial regulation change the marketplace, these changes will receive attention from marketing... I see more researchers becoming interested in how people make decisions about finances, and what the implications are for the marketing of financial services and anything that requires the use of credit or debt.”

Ronald Hill draws a connection from an increased focus on the role of regulation to a larger question about how business academics should view the relationship between business and government. According to Professor Hill, “Currently, we put too little emphasis on the intersection between government and business. The current model of business school in general doesn’t see much value in the role of government, and this has led to a generation of executives who don’t see much value there either. I’m hoping that with this crisis, faculty will begin to see that government plays an essential role in creating an effective economy, and that we can begin to work this idea into what we teach our students.”

Base-of-the-Pyramid

A number of the faculty interviewed believe that as coverage of the economic crisis helps to make poverty in the U.S. and around the world more visible, Marketing will focus greater emphasis on base-of-the-pyramid strategies. Madhu Viswanathan says “There is an intellectual momentum. People are starting to see that the divide between the ‘haves’ and the ‘have-nots’ is too great, and that business has a role to play in addressing this problem.”

Paul Bloom concurs. “There’s money to be made in developing countries, and social good that can be done at the same time. This is not something that Marketing has historically paid much attention to, but I think that with so many people hurting, increased attention will be paid to base-of-the-pyramid strategy in the U.S. This will draw attention the cases and courses that address how to serve these markets and be profitable at the same time.”

Changing the Culture of Consumption

In discussing the causes and effects of the economic crisis, some faculty point to the stark contrast between the underconsumption of the poor populations that base-of-the-pyramid strategies aim to benefit, and the culture of overconsumption in the U.S. They raise questions about the ways in which scholars can use the tools and knowledge of Marketing to change this destructive culture.

C.B. Bhattacharya, Professor of Marketing and Everett W. Lord Distinguished Faculty Scholar at the Boston University School of Management, believes that one source of the current economic crisis is this widespread overconsumption. “There’s a real connection between our culture of overspending—of living beyond your means, of maxing out your credit cards, and then refinancing your house to get more cash—and the economic crisis we’re in the midst of now... As human beings, we don’t need products for products’ sake, and studies have shown that oftentimes the more choices we have, the poorer the decisions we ultimately make. A cultural shift needs to take place, to break this myth that more products lead to more happiness.”

Professor Bhattacharya believes that changes at the company level can help to bring about such a shift, and that Marketing faculty have a role to play in the skills and attitudes they impart to future managers. “If we can do a better job of promoting the triple bottom line concept rather than focus on shareholder value as the primary currency, then a lot of things may change for the better.”

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Madhu Viswanathan concurs that marketers can play a role in shaping a more sustainable approach to consumption. “I’d like to see the growth of a sustainable marketing orientation, which acknowledges that the business exchange happens in the larger context of nature and society. This would infuse into Marketing the notion of delivering value to people and planet. It would shape product design with a focus on longevity and consumer behavior. These kinds of changes can come from regulation, but they can also come from actors in the market who get together to infuse a value that leads to greater sustainability, as in the case of the LEED green building rating system. Marketers are ideally situated to make these kinds of changes. They know how to understand customers, and the fact that customers aspire to something more than just buying things. Marketers can help to shape industry to respond to those aspirations.”

ONGOING QUESTIONS

The ideas set forth by the faculty interviewed above open significant philosophical questions for the Marketing discipline and offer productive avenues of inquiry for other disciplines as well. Business faculty are likely to be grappling with these questions for years to come, and the ongoing discussion will no doubt prove to be fascinating and potentially transformative. Questions to consider include

- How can business faculty help students develop practical strategies that will help them operate effectively and responsibly in the current economy?
- How can faculty use the skills and knowledge unique to their disciplines to engage productively with public dialogue about new regulations and the role of markets?
- How can faculty best confront business behaviors that can lead to destructive outcomes and help to shape a system that delivers more broadly-defined value to a greater array of stakeholders?

NEXT STEPS

This *Closer Look* is part of an ongoing series of papers that looks at business faculty’s responses to the financial crisis, both highlighting current teaching and offering their ideas about how the management curriculum might productively change going forward. We aim to feature perspectives from an array of disciplines. To share your thoughts, please contact Rachel Shattuck at rachel.shattuck@aspenninst.org.

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