DISRUPT OR BE DISRUPTED

A blueprint for change in

MANAGEMENT EDUCATION

GMAC®
GRADUATE MANAGEMENT ADMISSION COUNCIL

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Foreword

The MBA program, the flagship of business schools, was the greatest educational innovation of the twentieth century. I base this claim on at least three characteristics of the program: the case method, the transformational experience, and internationalization. Although business schools did not pioneer the case method—law schools did so—they made the case method discussion into a dynamic experience that brought a slice of real life into the classroom. In addition, the MBA was not just an educational experience but a transformational one. Both in the classroom and through the increasingly important extracurricular activities, students found their capabilities stretched not just technically but in terms of personal development. Graduates of good business schools found themselves transformed as people. More recently, the rapid internationalization of the student population of many full-time MBA programs, combined with the emphasis on group work, has given students a far more multicultural experience than those provided by other educational programs.

In the twenty-first century, the MBA and business schools face many challenges, most of which are ably addressed in this book. In this foreword I focus on the challenges that concern me the most. I do so based on my experience as regular or visiting faculty, and dean or associate dean, at top business schools on three continents.

The central ongoing challenge for a business school is that it is both a business and a school, a much stronger challenge than faced by other academic fields. Business schools have two audiences: academics and business practitioners. Furthermore, because academics are outside of business organizations, we cannot directly participate in or easily observe what is happening inside them. In contrast, just comparing ourselves to other professional subjects, a medical academic does research on the same human bodies on which doctors practice, a legal academic uses the same legal materials as does a practicing lawyer, and an engineering academic researches the same bridge structure as may be built by a practicing engineer.

This dual audience of business schools requires dual roles, which in turn may create a misalignment of the interests of the school and of individual faculty members. A school prospers by satisfying both its business and its academic audiences—and financially by attending to the business audience. In contrast, a faculty member can do very well focusing on just the academic audience. This split from practice is getting worse as more and more new faculty members start off in nonbusiness disciplines such as economics and psychology. Being embedded in universities drives this phenomenon. Interestingly, in Europe, where many schools have started outside of universities, most of the highest-ranked schools are stand-alone or have very loose links with a parent university (eight of the top ten in the *Financial Times* ranking of 2012).

This duality lies at the heart of the challenge to the sustainability of the business model of business schools, as discussed in a number of chapters in this book. The drive for research that seldom feeds directly into teaching means that less than half, in some schools much less, of faculty time is relevant to teaching. This effect holds up a high-cost umbrella for potential disruptors. Duke Corporate Education was the pioneer in leveraging teaching stars developed by the investments of other business schools. Certainly, in nondegree programs, we can expect to see more such disruption, and soon in degree programs also.

The duality also makes the role of the dean of a business school increasingly difficult. More than in other fields, the dean of a business school is trying to run a business. Typically, the dean's role is to close the gap between faculty interest in academic research and the need to deploy faculty for practitioner engagement. Schools often seek to appoint former practitioners as their deans, with risky results. Recently, three of the top European business schools had to replace their new nonacademic deans within two years of their appointments.

The final issue I raise is the 900-pound gorilla in the room: rankings. The first widely followed ranking, that by *Bloomberg Businessweek*, quickly generated changed behavior by business schools. But because that ranking used only three measures, there was a limited amount that schools could address. The advent of multiple-item ratings, especially those of the *Financial Times*, has given much more scope for redesign of programs that can improve a school's ranking. I know, because as the academic dean for the MBA program at London Business School, I redesigned the program in a way that helped lead the MBA to the number one ranking in the world for three years in a row. Rankings create a virtuous cycle of increased applications, more revenues, better teaching and research, back again to better rankings. But chasing rankings can be a Faustian bargain.

This book does a great job of tackling the many different issues facing graduate business schools today. The authors represent a wide range of schools and perspectives. It is essential reading for all those involved in the leadership of business schools, not just faculty but also those executives who sit on advisory boards and governing bodies. I recommend that deans give copies of this book to all their board members.

George S. Yip
May 2013

Note

George S. Yip is a professor at China Europe International Business School and a visiting professor at Imperial College Business School. He is former dean of Rotterdam School of Management, Erasmus University, and former associate dean at London Business School.

Introduction: The Change Imperative

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Georgetown University

Lyman W. Porter

University of California, Irvine

Since the late 1980s, dramatic advances have led to completely new ways of interacting, sharing, learning, and doing business. In today's world, relentless change is the norm as organizations strive to stay in front of new competitors, economic fluctuations, globalization, and technological developments. Because graduate business schools face these same pressures, it is no longer enough to maintain the status quo, or even to make incremental improvements. In the face of such demands, the role of business school deans has become broader and more strategic. Responding to today's challenges while balancing relevance, value, and reputation requires unprecedented strategic thinking, creativity, stakeholder engagement, and interpersonal effectiveness.

To help both business schools and their deans to thrive, this book takes an evidence-based approach to navigating changing times and to creating platforms that leverage schools' unique comparative advantages in ways that are tailored to today's business realities.

Throughout this volume, we discuss the challenges schools currently face (some of which are touched upon later in this chapter) and identify strategic insights and recommendations the authors offer to position graduate business schools for the future. Each chapter analyzes specific challenges and opportunities that business schools will confront as they continue to cope with the massive changes in the external environment. The forces for these changes can, and most likely will, have a significant impact on graduate management education in the years ahead.

Graduate Management Education's Major Challenges: An Overview

Financial Pressures

Concerns about the cost of management education are escalating. The problems manifest themselves in a number of ways. American universities have raised their tuition five times as fast as inflation since the mid-1980s (*Economist*, July 9, 2011). In 2012, student loan debt in the United States exceeded credit card debt, and, for the first time, student loan debt delinquency rates exceed those for credit card debt (Mitchell, 2012). Cost concerns are not exclusive to the United States. Since 2010, students have organized protests in response to government proposals to increase fees and tuition in Canada, Chile, Germany, and the United Kingdom.

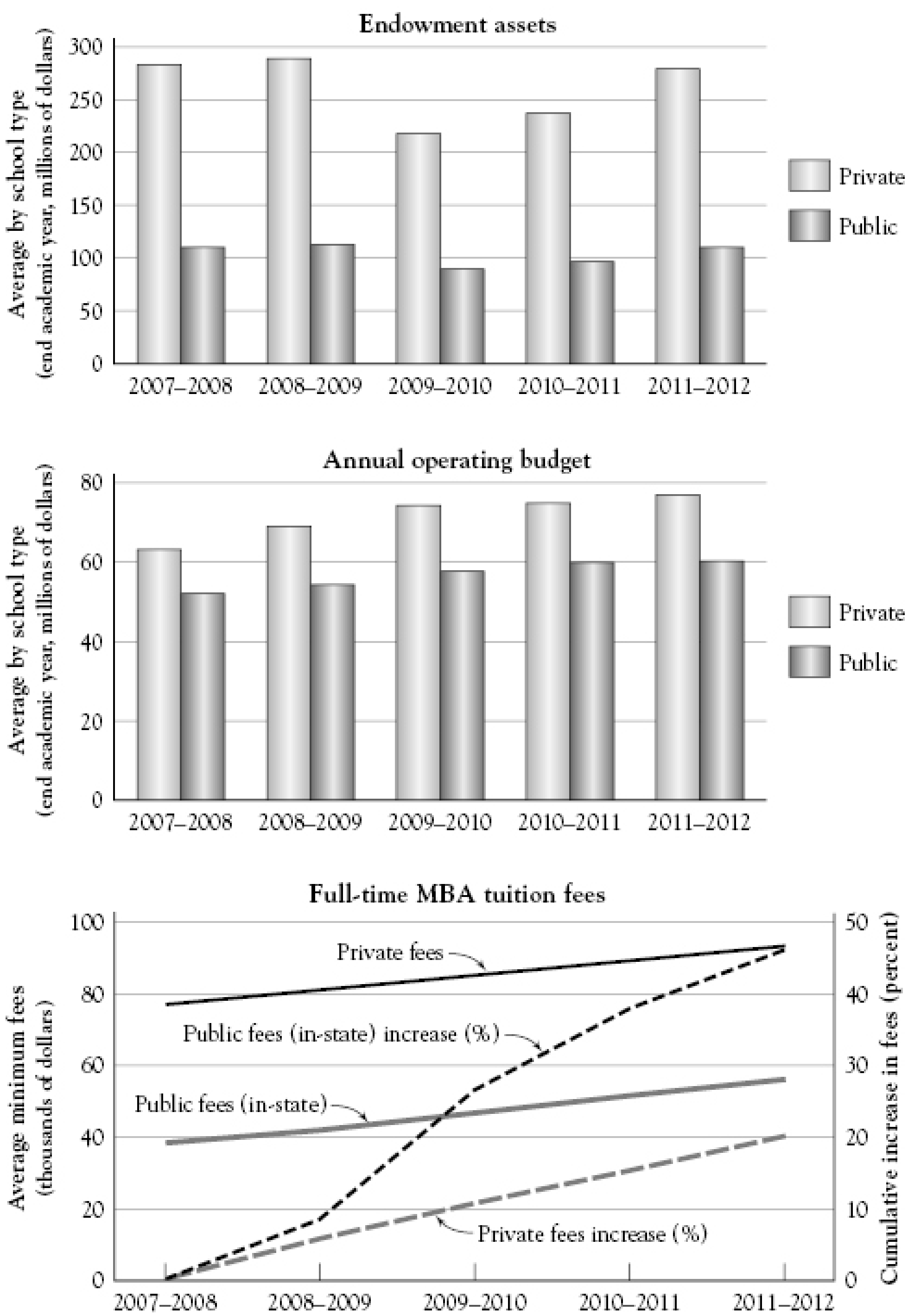
On the other side of the financial equation for business schools is a precipitous decline in government funding—a trend that is not expected to reverse (Korn, 2011). Between 2008 and 2012, total state funding for higher education in the United States dropped by 15 percent, adjusted for inflation, as states struggled with budget deficits. In some hard-hit states, cuts have surpassed 25 percent (Nicas & McWhirter, 2012). These well-publicized cuts are an acceleration of a long-term decline in government support, which has fallen from 40 to 50 percent of a typical state school's operating budget in the 1980s to about 10 percent in recent times. Given public resistance to raising tuition, politicians in Canada, Chile, Germany, and the United Kingdom have also sought to balance budgets by cutting spending.

For schools of all kinds, endowment income is not always a reliable source of needed financial relief. As Figure I.1 shows, among U.S. schools in the *Financial Times*'s Top 100 institutions worldwide, endowments at public institutions average 40 percent of those at private institutions (Palin, 2012).

Figure I.1 Endowments, Budgets, and Tuition Fees at Leading U.S. Business Schools 2008–2012
Source: Palin, 2012.

Fees and Funding

How leading private and public US business schools have fared during the economic downturn



Thus, economic downturns affect these institutions differently. Market crises hurt well-endowed schools when endowment earnings are severely curtailed; however, this is generally a short-term effect. In contrast, schools with small endowments are generally forced to depend heavily on the aforementioned uncertain state funding. To balance the books, “schools are leaving faculty positions unfilled and eliminating programs that are not delivering a positive return” (Palin, 2012).

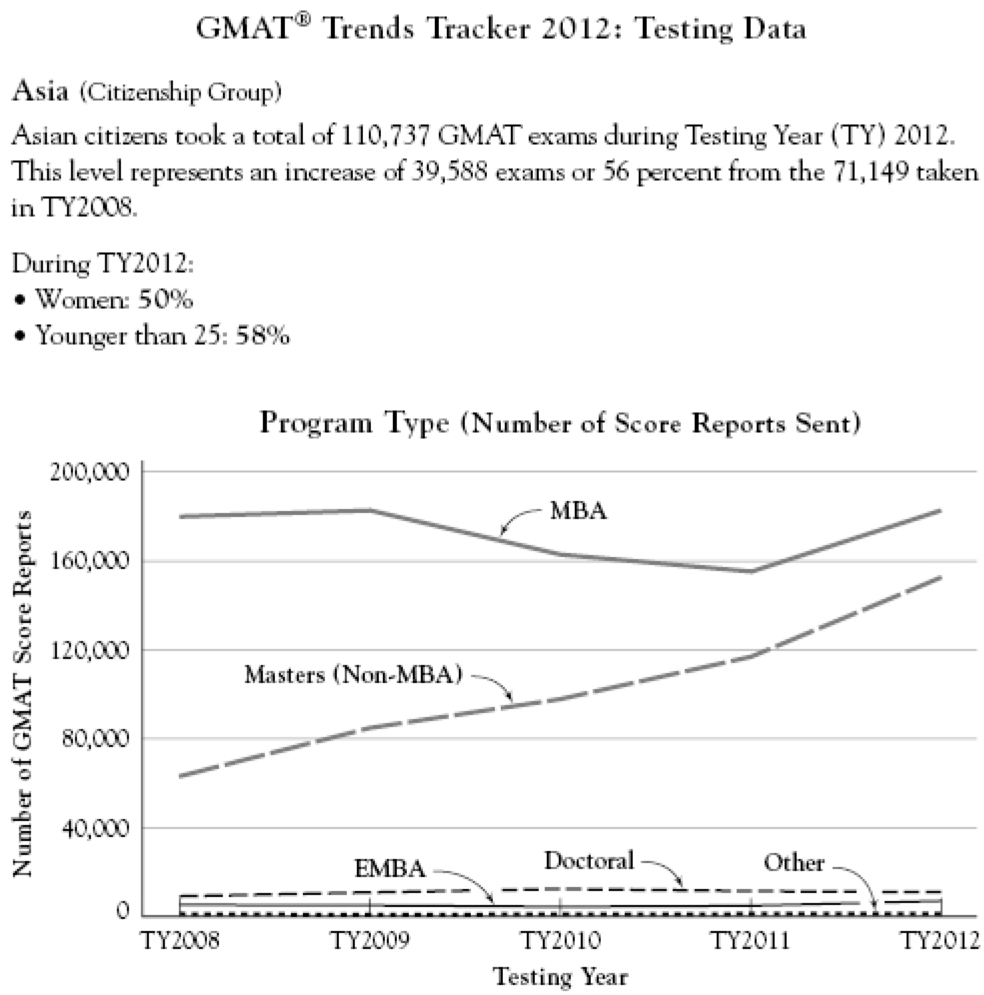
This is not surprising. When it is not possible to continue to raise tuition faster than inflation, government support remains steady or declines, and endowments cannot keep up, business schools must carefully consider where to invest scarce resources. First-rate scholars, for example, are an increasingly expensive component of budgets. So, should these scholars migrate to the few schools that can afford them? Should students access the insights of these scholars via Massive Open Online Courses, or MOOCs? Should some schools declare themselves to be primarily teaching or research institutions and not pretend to be both?

Responses to these challenges will most likely be many and outwardly focused (for example, expansion of specialty master's programs, development of additional custom executive education, global partnerships) and inwardly focused (for example, redesigning the curriculum). These efforts have only increased and diversified the competitive landscape, which we discuss next.

Shifts in Student Origin and Age

There are numerous signs of just how much the market for graduate management education has changed around the world. One clear indicator concerns geographic trends. For example, the early part of the twenty-first century has seen increased demand for the GMAT® exams in Asia. In 2012, 30 percent of exams were taken by Asians, an increase of 59 percent since 2004. (See Figure I.2.) However, fewer candidates are applying to U.S. schools (down 6 percent from 2004 to 2012; Schlegelmilch & Thomas, 2011). The decline is due in part to heavy investment in business education in Asia and Western Europe. For example, according to Association to Advance Collegiate Schools of Business (AACSB) estimates, there are 1,500 business schools in India (*Economist*, October 15, 2011). Furthermore, a number of Western schools, including INSEAD and MIT, are opening campuses in Asia. Although these trends will play out over many years, mid-level U.S. schools are already feeling the effects, with enrollment down by more than 20 percent since the turn of the century (*Economist*, October 15, 2011).

Figure I.2 GMAT® Score Reports in Asia 2008–2012, by Program Type
Source: GMAC, 2012b.



GMAT® Trends Tracker 2012: Testing Data

Asia (Citizenship Group)

Asian citizens took a total of 110,737 GMAT exams during Testing Year (TY) 2012. This level represents an increase of 39,588 exams or 56 percent from the 71,149 taken in TY2008.

During TY2012:

- Women: 50%
- Younger than 25: 58%

Another indicator of change concerns the age of students considering graduate management education. As Figure I.3 shows, from 2008 to 2012, the greatest growth in GMAT test takers was in the younger-than-twenty-five-year-old age group, who in 2012 represented 47 percent of all test takers.

Figure I.3 GMAT® Exams Taken Globally 2008–2012, by Age

Source: GMAC, 2012b.

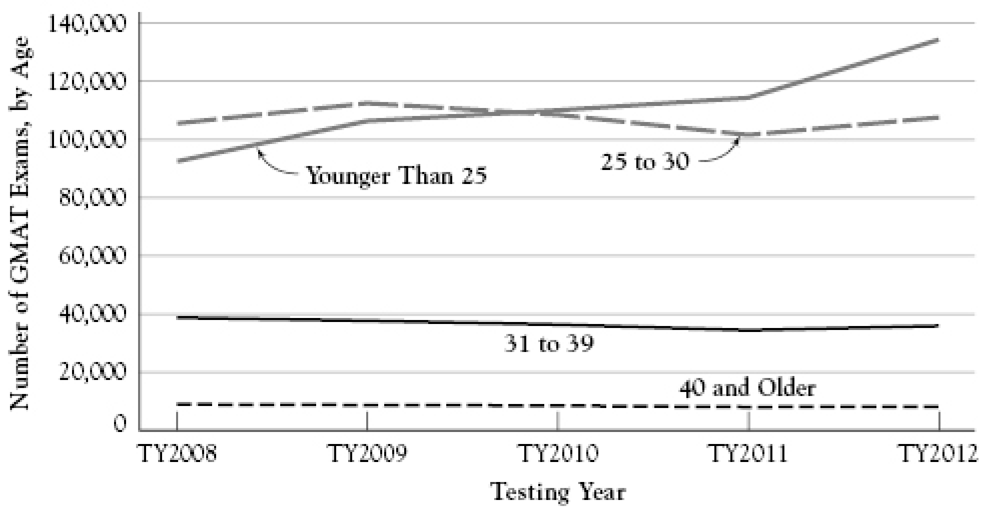
GMAT® Trends Tracker 2012: Testing Data

Worldwide (Citizenship Group)

Global citizens took a total of 286,529 GMAT exams during Testing Year (TY) 2012. This level represents an increase of 39,572 exams or 16 percent from the 246,957 taken in TY2008.

During TY2012:
- Women: 43%
- Younger than 25: 47%

Age Group



However, there was also a significant uptick in test takers who were more than forty years old (GMAC, 2012b). The aging of the population is another fundamental demographic change that will shape educational markets in the coming decades. In 2005, the average age of the world population was twenty-eight. By 2050, it is predicted to be thirty-eight, and in developed countries it will be forty-five (Bach, 2012).

This trend has a number of implications for business schools. Schools currently serve undergraduates in their early twenties, MBAs in their late twenties, and EMBAs (executive MBAs) in their thirties and forties. However, given the coming demographic shifts, who will serve the growing number of people in their fifties, sixties, and seventies? Will these populations be more interested in gaining additional knowledge (perhaps through certificate programs or custom executive education) or in sharing it (through business school–facilitated mentoring or socially responsible start-up incubators)? Will they demand an emphasis on proven real-world practices, or will they be content with theory?

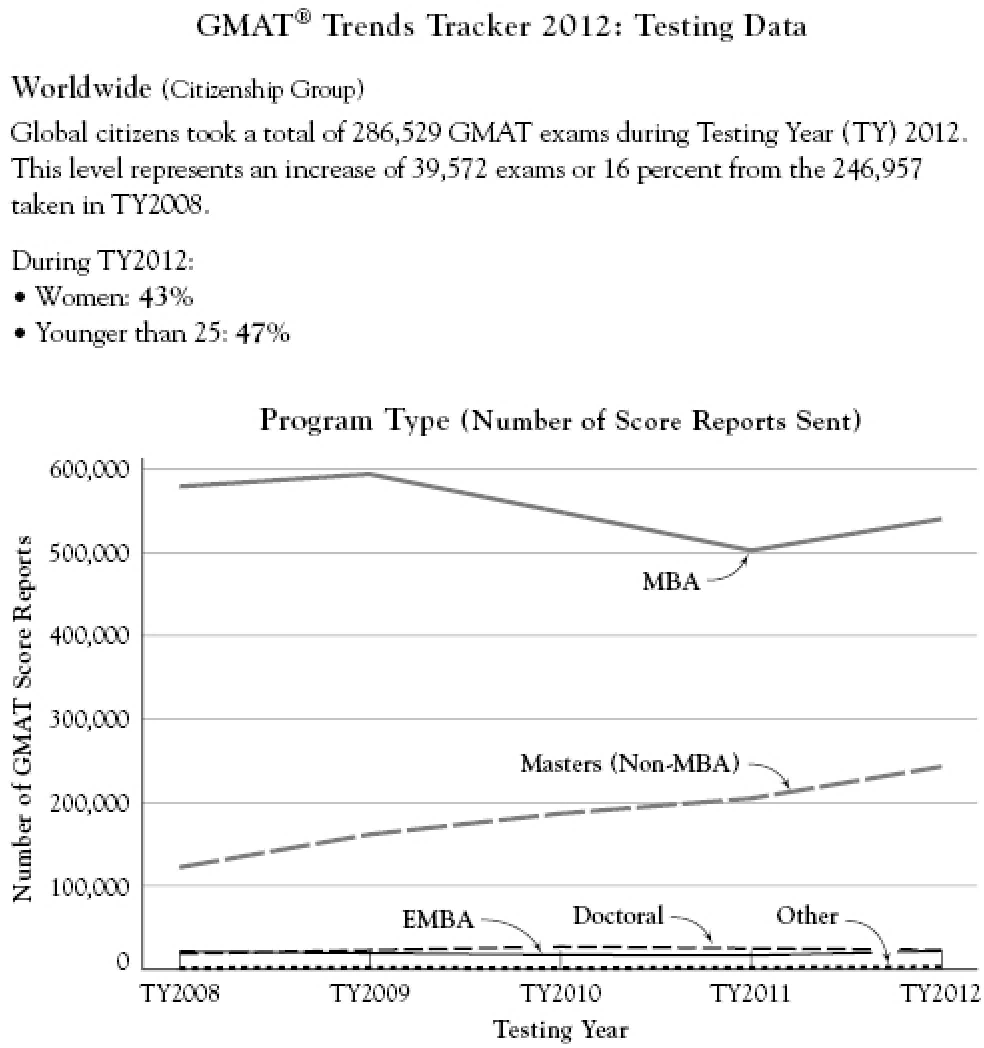
Changes in Program Numbers and Types

Shifting student markets are giving rise to a host of new competitors. As of 2011, AACSB estimated that there were 13,725 business schools (includes undergraduate schools) worldwide. The largest numbers were found in India (2,000), the United States (1,624), China (1,082), and Mexico (1,000). Of the 1,270 AACSB member schools, 57 percent were public (722), and 43 percent were private (541). Of the 649 AACSB-accredited schools of business, 488 were found in the United States, and 161 were outside the United States. This number grew 105 percent from 1984 to 2011. In regions outside the United States, which are dominated by other accrediting agencies such as EQUIS, AMBA, and ACBSP, growth was even more pronounced over this period (Datar & others, 2010).

The market for the full-time MBA, the historical driver of graduate management education, shows signs of decline. A shift has occurred from full-time programs to part-time programs and continues unabated, in part due to escalating tuition costs. The majority of part-time students continue to work and thereby avoid the steep opportunity costs associated with the full-time degree. Similarly, students have been turning to one-year programs that are cheaper than two-year programs in both tuition and forgone salaries (*Economist*, October 15, 2011).

The area of greatest growth in graduate management education is, clearly, specialized master's programs. Figure I.4 reveals an increase of more than 100 percent in applications to non–MBA master's programs from 2008 to 2012. Overall, the number of MBA test takers went down during that time period, and more so in the United States than other markets (GMAC, 2012b).

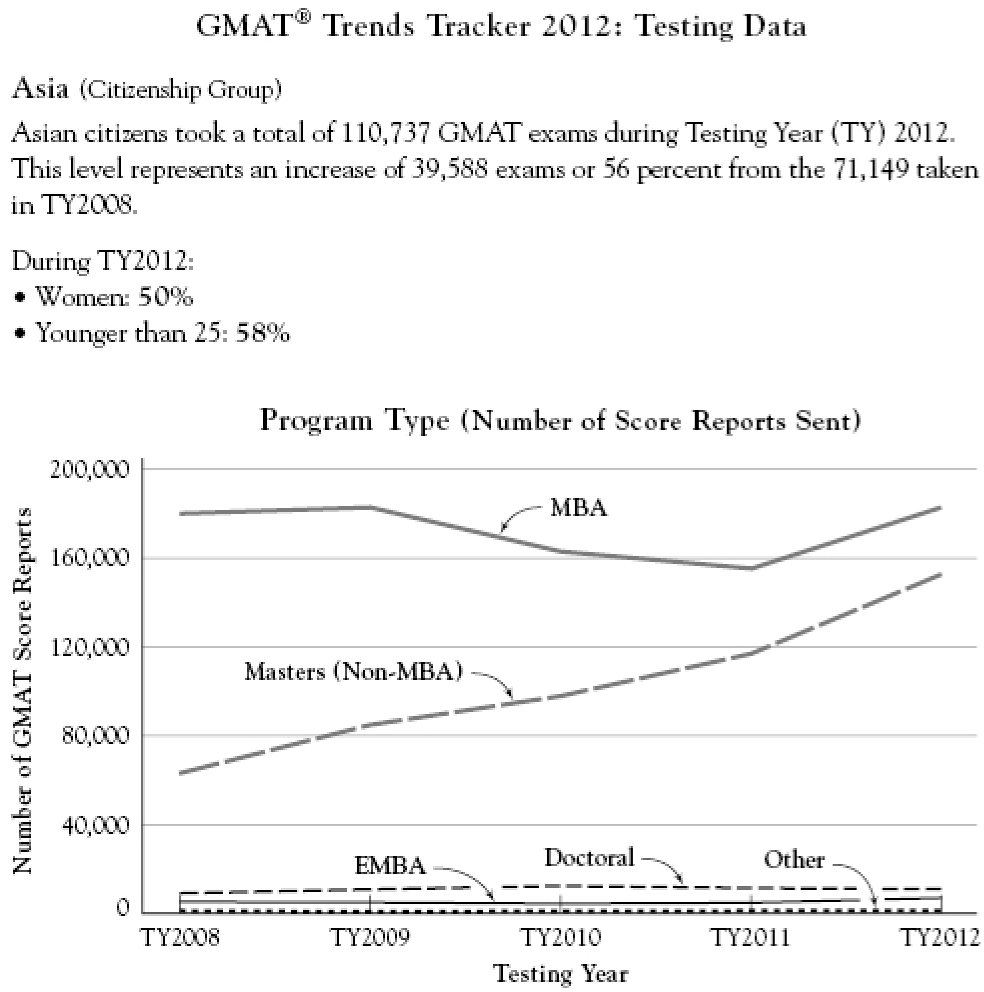
Figure I.4 GMAT® Score Reports Globally 2008–2012, by Program Type
Source: GMAC, 2012b.



The growth trend toward non–MBA master's degrees has been most pronounced in Asia, as can be seen in Figure I.5.

Given that in 2012 the number of Asian test takers approximated the number in the United States—and that growth in test takers in Asia was 56 percent from 2008 to 2012, compared to a decline of 7 percent in the United States—these are trends that cannot be ignored (GMAC, 2012b).

Figure I.5 GMAT® Score Reports in Asia 2008–2012, by Program Type
Source: GMAC, 2012b.



In terms of programs, the master's program that grew fastest from 2008 to 2012 was finance, as can be seen in Table I.1.

Table I.1 Change in GMAT® Score Reports 2008–2012, by Program Type

Source: GMAC, 2012a.

Program	Change in Number of GMAT Scores Sent	Percentage Change
EMBA	−200	−1%
MBA, full-time, fewer than 2 years	775	3%
MBA, full-time, 2 years or more	−21,257	−6%
MBA, part-time, evenings and weekends	−33,622	−27%
MBA, distance or online	2,256	22%
MA/MS/MSc in accounting, accountancy, or taxation	28,053	68%
MA/MS/MSc in business or management	4,166	83%
MA/MS/MSc in finance	25,615	164%

Another sign of change appears in the market for executive education. It has grown tremendously since the start of the twenty-first century and, consequently, has become increasingly important to many schools' bottom lines. Revenues at representative top-tier schools have increased impressively since the turn of the century. At Harvard, for example, total executive education revenues were US$71 million in 2001 and US$113 million in 2010 (Harvard Business School Annual Report 2001, 2010). During that time period at Duke Corporate Education (CE)—ranked first in the world by the *Financial Times*—revenues grew more than 200 percent, from US$12 million in fiscal year (FY) 2001 to US$38 million in FY 2010. Custom programs have grown most quickly on a percentage basis and, as of 2012, accounted for a majority of revenues at some institutions. For example, at IMD, 45 percent of total revenue was derived from programs created and delivered exclusively to individual clients (Tanikawa, 2012).

Not surprisingly, executive education, one of the most lucrative lines of business for management schools, is facing increased competition from a variety of providers. For example, graduate schools in fields such as international relations, public affairs, law, and journalism are developing executive education courses, particularly in niche areas that are not covered by traditional business schools. Stand-alone leadership development centers, such as the Center for Creative Leadership, have also increased markedly in numbers and revenues since the 1990s.

Moreover, new institutions such as Hult International Business School have quickly gained traction, in part because their one-year format is both relatively unique in the U.S. market and enables students to recoup their investment more quickly than other programs do. Hult has been ranked number one in postgraduation salary increase and number one in return on investment by *The Economist* (*Economist*, October 15, 2011). But the ascent in the rankings (number 21 in the United States and number 31 worldwide, according to *The Economist*) is also attributable in part to the nimbleness afforded a school that is not tied to a larger university bureaucracy.

As another example, the South African Council for Higher Education plans to create a two-tier MBA with different levels of academic rigor. This will put the country at odds with the rest of the world, according to one knowledgeable observer (Bisoux, 2011). Further blurring the boundaries is the wide-scale proliferation of certificate programs. But in less-developed markets, in particular, will people distinguish between a diploma and alternatives such as certificates? For example, in India will Stanford's name mean more to applicants and employers than the difference between a certificate and a degree? We may soon find out. Stanford Ignite, a part-time certificate program for entrepreneurs, based in Bangalore, launches in July 2013.

Technological Opportunities—and Threats

Further complications are growing out of the effects of technology on collaboration, teaching, and learning. For example, traditional competitors are now teaming up in a university consortium to offer small online courses. Duke, the University of North Carolina at Chapel Hill, and Northwestern are among the universities that will join together in fall 2013 to offer about thirty online courses. The courses are available both to their own students and to others who must apply, be accepted, and pay more than US$4,000 a course. This will further allow students to get access to the best courses or faculty talent regardless of location. Put differently, the rich will likely get richer, and the poor will likely get poorer.

Another innovative use of technology is Massive Open Online Courses, called the “single biggest change in education since the printing press” (Chubb & Moe, 2012). The courses are offered for free by leading institutions (such as Harvard, MIT, and Stanford) and have enjoyed overwhelming enrollment success. For example, a course at Stanford enrolled more than 150,000 students worldwide in fall 2011. MOOCs obviously offer great opportunities to students and have the potential to transform graduate management education.

However, such developments are not without their critics. For example, detractors are quick to point out that both attrition and costs are steep. How schools can sustain this model is unclear, given the costs to develop and deliver the content. In the Stanford case, only 7,000 people passed the course, and it brought in no revenue. Even so, that number is still larger than the population of Stanford undergraduates, and learning on a large scale clearly occurred. Furthermore, many traditional business school subjects, such as statistics and accounting, may be very well suited to long-distance learning. If accreditation standards can be developed and tests can be administered by a related or independent organization, then students may be able to demonstrate competencies without ever having to earn a traditional diploma. Could these new formats provide a viable substitute for an MBA degree someday?

Cornell University took a two-step approach toward this outcome with a MOOC it started offering in early 2013 through eCornell. The class, called “Marketing the Hospitality Brand Through New Media: Social, Mobile, and Search,” is available for free and takes roughly a month to complete. After finishing, participants may enroll in the second part of the class for $1,200, which results in a certificate in hospitality marketing and new media strategies for revenue growth (Hassan, 2013).

The University of Wisconsin goes yet another step further by offering a bachelor's degree to students who take online competency tests based on what they know. Students do not have to attend classes on campus or even take an online course. The degree is based on knowledge, not credits—the traditional currency of universities (C. Porter, 2013).

Clearly, these and other technological developments will have profound effects on the role of faculty and the need for full-time faculty and brick-and-mortar facilities. Just as L. W. Porter and McKibbin (1988) could not have predicted the emergence of the Internet or what its impact could be, today's business school leaders cannot assume that MOOCs are the only technology threat on the horizon. We simply do not know what is next. However, we can be certain that technology will continue to evolve in ways that let people to share information more effectively than before. We can also be sure that there will be dramatic gains—such as when the poor get access to previously unavailable world-class instruction—and significant challenges—such as figuring out how to protect intellectual property and maintain incentives to create it. Business school leaders must confront the possibilities as they emerge and examine how technological advancements fit holistically within their schools' missions, portfolios, and plans.

The Ongoing Importance of Relevance, Value, and Reputation

Although the market will determine the fate of many of the varied experiments of today and tomorrow, one thing is almost guaranteed: New competitors and products starkly demonstrate that standing still is unlikely to be a sustainable strategy. Schools must proactively demonstrate relevance, value, and reputation, which means rethinking how they conduct research, select and train faculty, design curriculum, engage students, and measure quality.

There is no shortage of societal challenges that business schools could help to analyze and address. Affordable health care, nominal and relative national debt levels, and innovations in products and services are just a few areas that would benefit from the skilled application of best practices and principles by management school graduates. Yet, many critics argue, current MBA models are losing their relevance. In addition, scandals such as Enron have undermined faith in the finance profession, and the 2008 global economic crisis occurred while major financial institutions such as Lehman Brothers were led by MBAs. As David Garvin has said, “A decade ago, the MBA was the ‘golden ticket’ to the job of your choice, but the future of business schools is not as rosy as it used to be” (Bisoux, 2011, p. 24).

Some contend that public funding is supporting research that could be better accomplished within think tanks or similar entities. A renowned business school scholar maintains that “employees of purely discovery-focused corporate R&D groups and government research institutes are inherently more cost effective than university scholars, who must split their time between research and instruction and whose explorations are not market driven" (Christensen & Eyring, 2011, p. 350).

To a troubling degree, some business school activities still seem relatively impervious to change. Among the most important of these are the way doctoral education is carried out and the continuing intensive emphasis on specific functional areas such as accounting, finance, and marketing—emphasis that at times hinders attempts to achieve more integrated approaches to solving business problems. This functional area emphasis is evident in the way teaching and research are organized in both the broader academy and individual schools. Despite substantial overlap in the way the knowledge is applied in the real world, management and operations are taught in separate departments, and the latest research about accounting and finance are presented in separate academic conferences. Curriculum committees design "integrative" courses, but on the shifting sands of what constitute the core, or essential, concepts that underpin management education. The lack of agreement on a clear paradigm of management education undoubtedly contributes to the difficulty of making the case that business education leads to superior management or organizational performance (Mintzberg, 2004).

What Follows in This Book

In sum, formidable challenges face the leaders of graduate management education. Following the Ford Foundation and Carnegie Corporation reports from 1959 and the AACSB Porter and McKibbin report of 1988, this book marks another quarter-century step in the development of the field. Because constraints and challenges are often key drivers of