Business schools on the hot seat: is darwinian selection in their future?

by

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Overview

Closures of full time MBA programs, fewer candidates taking the GMAT (Graduate Management Admission Test) in the USA, mergers of schools, emergence of new types of competitors, smear campaigns in the press... the very core of business schools seems to be crumbling. Faced with these stark realities, many business schools appear to be in denial, seemingly comforted by accreditation and ranking systems which result in increased mimicry and isomorphism. While some schools with strong brands will continue to thrive by tweaking their traditional business models, many others will have to innovate or perish. A variety of responses are being undertaken, including online delivery of courses, design of flexible and less expensive programs, and the diversification of the student body. Which will survive is the question at the present time.

Report by Sophie Jacolin • Translation by Rachel Marlin and John Kimberly

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Hamid Bouchikhi: Despite the reference to Darwin's theory of natural selection in the title of this talk, our view of business schools is not at all deterministic. The academic environment has undoubtedly undergone structural changes and even crises, but we believe that business schools have options to ensure their survival.

Higher education and management training are the subject, if not of a discussion, then a particularly lively 'conversation' in the Anglo-Saxon world, fuelled by the ups and downs which constantly punctuate the life of business schools. There are conflicting points of view: some people think that the model of universities and management schools is obsolescent while others defend these institutions and their ability to promote change. Even though this 'conversation' exists in the media and the academic world, it barely makes an impact on the relevant business schools, which seem to think that they are not in danger and continue to believe that they are inviolate. Over the past few years, the Deans of major schools have been changing as in a game of musical chairs: Johan Roos was fired from the Copenhagen Business School in 2011 soon after he started the job; Doug Guthrie was fired from George Washington University Business School in 2013; and both Édouard Husson of the ESCP and Roger Martin of the Rotman School of Management of Toronto resigned more or less under duress. Roger Martin, for example, who for ten years had managed to attract investment and to improve his school's position in the international rankings, left his job one year before the end of his second term of office, officially to devote himself to research. His very public stance concerning the inertia of business schools would suggest that his resignation may well have been for other reasons.

A short history of American business schools

John Kimberly: In order to make more sense of the crisis which business schools are currently experiencing, it would be helpful to give you a brief history of these institutions in the United States. The current situation arises from the extremely critical reports published by two American foundations in 1959, the Carnegie Foundation for the Advancement of Teaching and the Ford Foundation. Two key conclusions emerged from these reports; firstly, that teaching in business schools was insufficiently theoretical, and secondly, that research – and quantitative research in particular – was largely neglected.

(Dis)connections to business

Business schools responded by recruiting professors who had a research background, had mastered quantitative techniques, and were able to make a theoretical contribution. These professors also had to have achieved recognition in their discipline. As a result, from the 1960s onwards, the amount of academic research in business schools increased, and, ironically, as a consequence, the schools gradually became increasingly disconnected from the managerial world. For them, this was the start of a golden age. Thanks to effective fund-raising from companies and alumni, they recruited more professors with a research background, and, to feed the research enterprise, created new doctoral programs. By investing heavily throughout the 1970s and 1980s in discipline-based research, business schools in American universities gained academic legitimacy. An unexpected outcome was that while their professors published more articles in prestigious academic journals, the teaching delivered in the classroom was less and less connected with the business world. Publishing in practitioner journals, like the Harvard Business Review, or providing consulting services to companies came to be viewed as distractions that made no contribution to the academic prestige of the school. Consequently, the disconnect between business schools and the business world only grew.

This golden age, which heralded the current crisis, was marked by a spectacular growth in the number of business schools and their activities. In the 1980s and 1990s, these institutions started offering continuing education courses and, paradoxically, needed professors who were more in contact with the business world in order to develop this activity. These courses were extremely profitable and enabled business schools to invest more in the recruitment of professor-researchers and the construction of new facilities. Consequently, a rift emerged in schools between two types of professors; those who generated revenue and those who were busy publishing academic articles.

Throughout this time, business schools managed to attract increasing revenues from companies and government through research contracts. They became 'cash cows' in many major American universities, leading the universities to suspend the contempt they had for business schools in the past. Above all, the model of the business school rooted in a university spread throughout the world, and the two-year MBA (Master of Business Administration) model became firmly established.

Symptoms of the current crisis

Business schools, like other organizations, are subject to institutional pressures, pressures which encourage imitation and inertia. A prime example of these pressures is accreditation. Bestowed on their subjects by bodies such as the Association to Advance Collegiate Schools of Business (AACSB), the Association of Masters of Business Administration (AMBA) and the European Quality Improvement System (EQUIS), accreditation processes assess how individual schools measure up to criteria deemed to characterise "good" business schools. These evaluations reward individual schools for measuring up well on those criteria, thus reproducing the dominant model and discouraging innovation. Accreditation is nevertheless essential for schools, as it establishes their legitimacy and presumably enables them to attract more students and increases their ability to generate revenues.

About ten years ago, the deans of four prestigious establishments including the Wharton School (University of Pennsylvania) and Harvard Business School decided not to take part in the Business Week business school rankings. This decision only lasted two years. There was so much pressure on them that even these elite schools could not afford to be missing from the ranking tables.

Hamid Bouchikhi: The accreditation mechanisms largely explain the reluctance of business schools to acknowledge the challenges they are facing. The bodies which carry out these assessments are not, strictly speaking, external agencies, but are made up of academics auditing their peers. Such 'inbreeding' prompts people to react in a protective way. In response to the observation of the prevalence in business schools of a dissociation between academic research and the practical world, the AACSB integrated a new 'impact' criterion which is supposed to measure the involvement of professors in the business world, and their presence in the media. However, this aspect figures only very marginally in the evaluation of professors, and in particular at the beginning of their careers. Therefore, while professors are researching theoretical subjects, they are simultaneously often teaching means and methods invented and practised by well-known strategic management consultancies. The disconnect between what is taught and what is published is a true sign of schizophrenia.

John Kimberly: Added to this is the growing importance given to worldwide rankings. Among the several thousands of business schools which currently exist in the world, there are at least one thousand which aspire to be in the top ten and are using virtually identical strategies to achieve this goal. Clearly, the great majority are fooling themselves.

New competition

In the 1990s, the competitive landscape in business education shifted on several fronts. New bodies – notably corporate universities – entered the executive education market and challenged the domination business schools had previously enjoyed in this field. Also, management consultancies increased their involvement in applied research and widely broadcast their work in journals such as the McKinsey Quarterly or on their websites.

Questioning the MBA

Hamid Bouchikhi: A sign of the problems for business schools is the diminishing number of applicants sitting the GMAT (Graduate Management Admission Test) over the last few years as part of applying to an MBA program.

While the total number of candidates taking the test has been on upward trend, this is mainly due to the growth of Masters in Management programs targeting candidates with no professional experience. Demand for these programs is increasing, especially since the Financial Times published a 'Masters in Management' ranking, in 2005.

The relevance and suitability of the traditional two-year full time MBA is hotly debated. Is it really worthwhile for professionals to take a two-year break in their careers to pursue a degree which can cost as much as $200,000? The fact that many MBA programs are not able to reach their admission goals suggests a negative answer. The decision by Wake Forest University to pull the plug on the traditional MBA program adds fuel to the negative return on investment argument. The decision by Arizona State University to offer its full time MBA for free is another sign pointing in the same direction.

A criticised lifestyle

The American press has frequently criticised universities in general and business schools in particular, citing them as being very costly, cut off from the real world, and a vector of social exclusion. Criticism has come from within the fraternity as well. One example among many is Warren Bennis, a well-known figure in management, who published an article denouncing the financial excesses of these establishments[1]. It is widely deplored that the sole function of the business school dean is to find additional funding to cover escalating costs which are not only, as is often alleged, driven by professors' salaries. Investments in buildings, sports infrastructures, IT, marketing and publicity all weigh very heavily in a business school budget. The decreasing average tenure of business school deans is another sign of the magnitude of the challenges.

An increasingly burdensome cost structure has become a threat to business schools at a time when an increase in resources seems to have plateaued. A large American business school may have enough endowment to survive stagnation or even a decrease in revenue for a few years, but smaller business schools in the US and Europe, with small or no endowments, would find it hard to survive and would have to make painful choices. The journalist John Byrne goes as far as to predict that American business schools will suffer the same fate as that of General Motors [2]. Richard Lyons, the dean of the Haas School of Business at the University of California at Berkeley, predicts that half the current number of business schools will disappear in the not too distant future.

The dis-integration of the value chain of business education

The integrated value chain on which every good business school finds itself – and whose parts include research, the development of courses, teaching, assessment of acquired knowledge, job placement for students – is dis-integrating as new players, such as Asian based companies which offer to grade the essays and homework of students, invest in single parts of this chain.

American investment funds such as University Ventures seek out companies that develop services in the higher education sector. New entrants have invested in this area, including the multinational for-profit Laureate Education. In France alone, Laureate has bought three business schools (*Institut français de gestion* – IFG, *École supérieure du commerce extérieur* – ESCE, and the European Business School) and one engineering school (*École centrale d'électronique* – ECE).

Furthermore, large companies have developed their own 'corporate universities' and are not inclined to pay the going rate charged by a business school for a training day. Not surprisingly, the leaders of corporate universities have joined forces to form the 'Global Council of Corporate Universities' and work together to draw up their own standards. The training of senior executives, which for a long time was considered to be the business schools' 'cash cow', is now being challenged on many fronts, and may no longer be the growth driver it once was.

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1. Warren Bennis et James O'Toole, '*How Business Schools Lost Their Way*', (Harvard Business Review, May 2005).

2. John A. Byrne, '*Are U.S. Business Schools Headed For A GM-Like Fall ?*' , article which appeared on August 17th, 2015 on the site Poets & Quants website (www.poetsandquants.com).

‘Business as usual’?

Faced with these challenges, business schools continue to create programs, recruit professors, invest in their marketing and above all try to improve their ranking. But it is not clear how successful business as usual will be. In France, mergers are increasingly viewed as a path to survival. Examples include the Reims Business School and Rouen Business School which merged to form the NEOMA Business School, and ESC Lille and the CERAM which are now the SKEMA Business School. On the other hand, an attempt to create the France Business School by merging the schools of Tours, Poitiers, Orléans, Amiens, Clermont and Brest has stalled. These mergers – successful and failed alike – all represent efforts to survive in a rapidly changing environment.

Will undergraduate programs save business schools?

Following yet another path, many European business schools are creating, growing or taking over undergraduate programs. The vast majority of French business schools, for example, now offer a BBA (Bachelor of Business Administration). This market segment is less competitive, and every student who is admitted to the school guarantees a revenue stream for the next four years.

In Spain, the *Instituto de Empresa*, a former American-style business school founded in 1973 around an MBA program, bought a number of higher education establishments a few years ago, and became a university which currently offers many Bachelor’s and Master’s degrees.

Experiments with virtual MBAs

In this domain, two business schools deserve special mention. Unlike many of its competitors, Harvard Business School decided not to take part in the development and marketing of MOOCs. Instead, it developed a proprietary platform (the HBX) where for $1,500 one can access the CORE course which provides an introduction to economic, financial and managerial sciences.

The University of Illinois at Urbana-Champaign is offering a joint on-line MBA on Coursera, an education technology company specialising in virtual education. It costs $20,000 and is much less expensive than its traditional MBA. Time will tell whether this bold initiative will be successful and whether the new program will cannibalize the school’s traditional full time MBA.

Schools looking for social legitimacy

John Kimberly: A recent development in American business schools is the creation of programs in social innovation or social enterprise, where the focus is on ventures undertaken deliberately to deliver social benefit. The Wharton School, for example, now has a Vice Dean for Social Impact and offers a free site, Knowledge@ Wharton, which is designed to translate the results of faculty research in economics, management and finance into articles for the ‘lay’ public. Launched some fifteen years ago, the site today has more than two million subscribers and is available in Spanish, Chinese, Portuguese and Arabic as well as English and also offers a high school edition. Wharton has also launched “Business News Powered by Wharton” on a satellite radio station as another vehicle for raising its profile in the public domain and enhancing its reputation for research that “matters”. This sort of brand-building investment was unheard of ten years ago and is another indicator of the extent to which the world of business education is evolving.

What is the future for management training?

Hamid Bouchikhi: Unlike those who predict a total collapse of the system, our prognosis is not so gloomy. With reference to the Darwinian metaphor, a first possible scenario is variation. It is possible that the innovations introduced by new entrants are helping to broaden the market and diversify the offer. Students who simply want to learn to read a balance sheet and a P&L statement will be satisfied with a MOOC, whereas others will be attracted by the content or the prestige of an MBA and will pay the necessary price. The current environment could therefore accommodate various players including traditional business schools. The second scenario is selection.

Establishments which are mediocre and less adaptable will go bankrupt or will be taken over by others which have more viable business models. The third scenario is progressive adaptation in which a limited number of incumbent business schools would develop strategies enabling them to stay in the game by tweaking their approaches.

In emerging countries there is a growing demand for management training, and business schools are becoming popular in India and China. These new establishments, which have very low cost structures might become, in a not too distant future, an attractive proposition for American or European clients. Today, in the world of health care, people in the West are often willing to be operated on by surgeons in India or Thailand so what would prevent them, one day, from seeking an affordable education in these parts of the world?

John Kimberly: There are two sorts of organisations here, and each one has its own agenda. On the one hand, there are the established incumbents, and on the other, newcomers. Among the established incumbents, a small group of elite, top tier schools does not feel threatened and will, most likely, continue to attract high quality candidates in their MBA programs. The remaining business schools, however, are at considerable risk. They will have difficulty in attracting students and finding them jobs at the end of their training. Their business models are likely to be dramatically undermined.

As for the newcomers, they will develop new solutions to attack the established incumbents. They are already creating alternative programs which are more flexible and less costly than those of the more traditional players. How this will all play out, of course, remains to be seen.

A passive but greedy monster

Question: *For several decades, the business school system has always survived despite non-stop criticism directed at it. These schools seem to be protected by their own inertia.*

John Kimberly: In 2011, the Carnegie Foundation published a second study on business schools in which it acknowledged that its 1959 report made these establishments go off track when it emphasised the need for theoretical and quantitative approaches. The authors of this second study want business schools to redefine their *raison d'être* and the way in which they carry out their functions.

Hamid Bouchikhi: There are countless reasons for the inertia – accreditations, rankings, recruitment policies of corporate donors, and so on. This inertia makes it possible to extend the life of business schools. Business schools could be compared to the pharmaceutical industry which is regulated and protected.

Q.: *How did business schools manage to raise funds from companies while simultaneously offering courses which taught less about management?*

J. K.: In the United States, funding comes essentially from alumni who donate on a personal basis. When companies want to give money, it is to display their names in the school auditoriums for all to see.

H. B.: In France, companies started donating money to schools after the Aillagon Law made it easier to do so by making donations tax-free. Corporate donors really want to make their presence felt on campus, and they do so by organising recruitment drives. Having said that, the number of corporate donors is starting to plateau.

Q.: *Fundraising represents 60% of Harvard Business School's budget if one includes donations and revenue from its endowment fund. Harvard's aim has been to collect $6.5 billion over five years. A little more than half comes from alumni and companies, and the rest comes from the government via a tax deduction of about 40% on foundations. In other words, the government is spending considerable amounts of money on these privileged young people! Another example is the University of Southern California: it launched an investment program costing $6 billion and its fundraising department employs as many as four hundred and fifty people. In the US does anyone pay attention to people who stand up and say that they find this system fundamentally shocking?*

J. K.: I share your indignation. Nevertheless, Harvard and the University of Southern California are rather special cases. Parallel to the situation which you describe, an important initiative is taking place in elite schools to welcome students from less privileged backgrounds through provision of scholarships. This shows that schools really want to be more open, and this is genuine.

Paying one's entrance among one's peers

Q.: *Has anyone ever assessed if it is worthwhile for a company to hire a person with an MBA degree compared to a person without an MBA degree?*

J. K.: This subject is controversial in the United States: what exactly are the benefits to students of a business school degree, and what are the benefits to employers of hiring MBAs? Even the schools such as Harvard, Wharton, Yale, Chicago and even Stanford are confronted with the same crucial problem: how much time do students spend studying, and how much time do they spend having parties and creating networks which will be useful to them in their future professional lives? Does the additional value of these MBA programs come from their educational content, or the fact of having a degree and having access to a network? Cynically, one might think that these elite schools are a sham; each of them acts like a business school, but the professors in fact devote themselves principally to research or consulting, and the students principally create networks. These two groups meet occasionally, but each one acts separately to serve their own interests.

H. B.: The MBA students at the Stanford Graduate School of Business were angered by their dean, Garth Saloner, because he wanted to put more emphasis on academic work. He was criticised for trying to kill Stanford's culture.

Q.: *You suggest a strategic analysis of the industrial sector of business schools. If you were to do this, one would have to define a business school precisely. According to the official definition, it is to teach students skills which will be useful to them in making a company work. However, if we were to draw a parallel with the Catholic Church in the 16th century, we could compare the activity of business schools with the 'sale of indulgences': this is the practice of selling prestige and reputation to a public which has the means to buy them and in so doing grants this public access to the Holy Grail. With this in mind, the operation can take place smoothly. Of course there is strong competition because a very small number of schools are able to have access to the greatest recognition. For now, only a few business schools have this prestige, but it could be extended to engineering schools or the Silicon Valley if this population was seen to be the new, future legitimate distributor of indulgences.*

H. B.: All the same, this intangible asset only has a value for a handful of business schools.

The hard, the soft and the management

Q.: *Regarding management, you talk about theory, research and training and you use terms whose meaning is not clear. In medicine or chemistry, these words have a precise meaning: they are related to 'hard', universal or lasting knowledge. This not at all the case in the field of management where there is no firm theory or fundamental research as such. We are scarcely able to explain logically events which take place in organisations! As far as training is concerned, business schools emphasise the need for students to demonstrate their capacity for work and their strength of character. The discipline of management is therefore somewhat 'soft', it is subjective, and is subject to inherent variations in human reactions. We may claim to manage these areas but this is just pretence. From this point of view, business schools serve only as a rite of passage; if one has studied at a business school, one acquires a status, but not knowledge.*

H. B.: This is the key issue. The authors of the1959 Carnegie and Ford Foundations' reports were convinced that management was a science. Those who put forward the academic business school model were motivated by a search for a science of management. But this is useless because management is about people, behaviour and emotions, in other words, irrational subjects.

The so-called 'soft' disciplines, such as the social sciences, tried to appear 'hard'. Today many say it was all a sham. Nevertheless, tribes and rituals have emerged – in PhD courses, conferences, and academic. The intellectual project of a management science should be questioned. Unfortunately, it is impossible to have such a discussion within the schools. The main problem of business schools is to learn to treat the 'soft' part in ways which are not 'scientific'. But before this can even take place, they need to become aware of this necessity.

J. K.: There is a different viewpoint regarding the contribution of the behavioural sciences to management. Even though they are said to be 'soft', these disciplines are subject to scientific research whose results are tangible and can change practices, for example the role of women in companies, the effect produced by diversity in teams, or the management of emotions in a professional context. The emergence of behavioural economics and behavioural finance further reinforces this point.

Q.: *If the value of courses taught by business schools can be called into question, is it not because management knowledge is created by 'hands on' experience rather than theoretically? Lean Management was invented at Toyota even though it was the Massachusetts Institute of Technology which worked very hard on its formalisation and distribution. Would it not be useful for business schools to help managers to take a step back in their professional practice?*

H. B.: Many of us are convinced that knowledge is drawn from our experiences, ie. what we do. Models of interaction where the theoretical is put up against the practical can help to put into perspective and to conceptualise what managers experience, and even develop theories which they know are temporary. Unlike a physicist, a researcher in management does not have a monopoly of knowledge. Each person, whether he is a journalist, practitioner, consultant or professor, thinks he is entitled to give his point of view on the subject. What is the status of a researcher who expresses himself in this context? Where is the line between the actor and the scholar? Pierre Bourdieu provided an answer by explaining that the scholar invented his own language which was incomprehensible to others in order to set himself apart. Generally speaking, we should ask ourselves whether the theses and theories of management add anything to the field of management. It is a shame that 'research-action' was brushed aside in business schools in favour of research in an academic vacuum.

Q.: *The business schools have not given a great deal of importance to work placements or internships. Yet these could be selling points for business schools, and foster their professional development. In the end, perhaps a professor's essential role is to help to derive some sense from the practical side of things. This would be a way of creating value and differentiation in the general training – especially since experience is probably the only subject which cannot be replaced by a MOOC*

H. B.: So all of the teaching methods need to be revised! I think that that is a long way off.

Q.: *Surely consultants who know companies inside-out are better placed than the professors to manage business schools? A former consultant at McKinsey has just been appointed head of a well-known American business school.*

J. K.: Twenty-five years ago, the Wharton School recruited a dean who was not part of the 'gang', Russell Palmer. He had a Bachelor's degree and had run a large auditing company. The faculty was extremely sceptical about his appointment. But he had a profound effect on the school. He was able to articulate an exciting vision for the future of the school and share it with everyone. He brought dynamism and built a culture which inspired the faculty to implement an ambitious strategy. He was, in short, successful. However, there have been other cases where outsiders have failed just as spectacularly. So it is not obvious that recruiting consultants to be deans will necessarily be the answer. Effective leadership depends on more than the leader's professional background.

Presentation of the speakers

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