

**RETHINKING THE BUSINESS MODELS
OF BUSINESS SCHOOLS: A CRITICAL
REVIEW AND CHANGE AGENDA
FOR THE FUTURE**

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RETHINKING THE BUSINESS MODELS OF BUSINESS SCHOOLS: A CRITICAL REVIEW AND CHANGE AGENDA FOR THE FUTURE

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Contents

Acknowledgements	<i>vii</i>
About the Authors	<i>ix</i>
Preface	<i>xi</i>
Introduction	<i>1</i>
Chapter 1 The Current State of the Business School Industry	<i>9</i>
Chapter 2 Undergraduate and Pre-Experience Programmes	<i>41</i>
Chapter 3 Management Development (MBA, EMBA, Exec. Ed.)	<i>65</i>
Chapter 4 Business School Revenue Orientation	<i>91</i>
Chapter 5 Value Proposition and Portfolio Choices	<i>115</i>
Chapter 6 Innovation: Challenging the Business School in the VUCA World	<i>133</i>
Chapter 7 New Entrants, Strategic Alliances and Business Schools Closures	<i>151</i>
Chapter 8 Conclusion and Implications	<i>167</i>
Index	<i>181</i>

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Kai Peters, Richard R. Smith, and Howard Thomas

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Preface

This book is the result of a strong collaboration and friendship between three business school professors with different experiences in, and perspectives on, the field of management education.

Howard Thomas comes from a more scholarly, academic tradition and career path. A lifelong academic, he has also been a Dean on three continents, namely, Europe, North America and Asia-most recently as Dean at the Lee Kong Chian School of Business in Singapore Management University (SMU). He has also chaired many organisations in the management education field such as CABS (UK), AACSB and GMAC (US), and EFMD (Europe). Howard is active in business as a board member, advisor, and speaker. He is also acknowledged as a highly cited scholar in the fields of strategic management and management education.

From a more applied academic tradition, Kai Peters has embraced both a successful corporate career at IBM and Volkswagen and broad international experience as a Dean at Erasmus University in Rotterdam, as Chief Executive at Ashridge Business School (UK) and as Chief Academic Officer at Hult International Business School. He is currently the Pro-Vice-Chancellor of Business and Law at Coventry University Group in the U.K. He serves on a variety of boards in the academic and health care sectors. Kai is also known as one of the top 100 HR professionals in the UK. He has an enviable reputation as a scholar and leader in the management education field.

In an even more practical vein, Rick Smith has had a highly successful business and consulting career in the USA, China, and Singapore. He served as a Senior Vice President in the Manpower Group, CEO of SSI Asia Pacific Limited, and Managing Director at Accenture. He serves on a variety of boards including the management development think-tank, ICEDR and the Singapore government's Civil Service College. After retiring from business, he transitioned to academia as an Associate Dean for Postgraduate Professional Programmes and Professor of Strategy Practice at SMU. His research interests are in corporate governance and strategic human capital.

Our overarching aim has been to draw on our wide-ranging experience of management education at all levels to explain and understand, from a value - based perspective, the existing business and teaching models currently adopted in business schools. More importantly, we examine the need for ongoing innovation in these models given the challenges of such factors as technology enabled learning, competition and disruption.

We also believe quite strongly that business schools must continually address their legitimacy, identity and value in the context of higher education. Dialogue and debate should continue about the potential role of business schools as professional schools like those in schools of engineering, law or medicine. Such schools would provide society with a cadre of responsible, reflective and insightful professional managers possessing a strong ethical and moral compass.

We hope our arguments provide insights and challenges for management educators. As a consequence, we look forward to your comments, criticisms and constructive feedback.

Kai Peters, Richard R. Smith, Howard Thomas

Introduction

By any standard, and despite many critical attacks, business schools are one of the success stories of higher education – if only in terms of their sheer growth in recent years. The Association for the Advancement of Collegiate Schools of Business (AACSB) estimates that there are more than 13,000 institutions in the world offering business degrees ([The Economist, 2011](#)) and the magazine also posits that there are between 1,500 and 2,500 business schools in India alone, making one wonder how a figure of 13,670 is arrived at with any degree of accuracy ([The Economist, 2011](#)). Whether this number is a correct estimate of market size or not, it really only includes the number of institutions that award their own degrees. Many institutions offer degrees provided by other degree-awarding institutions. Indeed, the British Council estimates that there are over 700,000 students outside the UK studying for validated UK degrees. In addition, Australian, New Zealand and Canadian schools are also in the validation business and thus also contribute to the overall increase in business degree provision.

Given the number is undoubtedly large, some attempt to provide consumer advice, guidance and differentiation is offered by accreditations and rankings. AACSB accredits nearly 800 schools worldwide. The EFMD's European Quality Improvement System (EQUIS) about 170 schools and the Association of MBAs (AMBA) 245 programmes. These numbers continue to grow as the international footprint of business schools increases ([Urgel, 2007](#)). At the time of writing (Summer 2017), 76 schools appear to be accredited by all three of the above associations. Many of the triple-accredited schools cite that they are in the “top 1% of business schools world-wide”, which probably sounds better than saying they are in the “top half-a-percent” worldwide. Accreditation is becoming increasingly important as a means of providing some market transparency and comparison as entrants jostle into the business of management education and established schools become increasingly globalised ([Trapnell, 2007](#)).

2 *Rethinking the Business Models of Business Schools*

Rankings provide a second well-known guide to the business school landscape. Most of the major rankings providers (often media-based organisations) restrict themselves to making lists of 100 top schools and a smaller number of schools in the executive education rankings. One organisation, Eduniversal, attempts the Herculean (and hardly scientific) task of providing a ranking of the top 1,000 schools worldwide. However, rankings are, rightly or wrongly, often perceived as highly manipulated and often unfairly re-levelled based on changing sets of criteria (Corley and Gioia, 2000).

The overall growth in business school numbers can be attributed to several factors. The most obvious is that for the students who attend business school business education tends to be positively correlated with getting a good job. A second factor is simply that the world has become more of a business-oriented marketplace. A whole host of business schools were formed or reformed following the 1989 fall of the Berlin Wall and related events in most Eastern European countries. In other parts of the world, notably across Asia, rapid industrialisation has also prompted the growth in business schools as has market-oriented liberalisation in China. A third factor is perhaps more self-serving from the schools' side. Providing business education, a "chalk and talk" subject that does not require such expensive infrastructure as medicine or engineering do, is seen as a (potential) cash cow. Certainly, if one focuses on teaching, foregoing research and working mainly with adjuncts and practitioners as faculty, the cost base can be kept relatively low.

Many business education providers do not grant degrees at all and focus specifically on executive education. If estimating the size of the degree-granting market is a challenge, working out the size of the executive education provider market overall is next to impossible. Non-degree business education includes all manner of providers ranging from business schools themselves to specialist providers, to the major consultants and HR service providers, to boutiques to single business operators.

Khurana (2007) writes that in the mid-1950s there were only 150 universities in the US that offered business degrees and that the US provided the bulk of business degrees world-wide at that time. Growth since then has been extraordinary and the market-place, while internationalising and reaching out to new populations previously not served by business education, has also become more crowded in pretty well every market around the world.

Reflections on the Business School Environment

Business schools around the world have examined and commented on a world in flux for the past several decades. They watched, and often encouraged, the neo-liberal dismantling of state-run industries in the 1980s and 1990s (and continuing to this day) as they were thrown open to competition. While in many cases competition ensured that organisations were better run, in other cases it led to former public utilities being required by regulators to offer historical services. For example, residual post offices might be required to deliver postcards to the remote Orkney Islands or to Alaska in January at regulated prices. New competitors, unsurprisingly, avoided these uneconomic legacy services in favour of delivering packages between metropolitan hubs where lucrative and low-hanging profits could be harvested. Historical labour arrangements, pension and health care promises and often unionisation were avoided. New models sought to arbitrage specific opportunities in long-established integrated and cross-subsidised value chains.

More recently, business schools watched excitedly as Schumpeterian disruption rapidly reconfigured entire industries. Driven by the combined forces of globalisation and technological innovation, traditional retailing has been usurped by online shopping; digital culture – music, films and books – has undergone a similar upheaval; and taxi and hotel business models have been challenged by new providers of travel and accommodation. For Uber and AirBnB in the western world, there is a host of fast-following competitors across Asia, Africa and Latin America.

Over the past few years, business schools have hosted conferences and faculty have written articles and case studies about these changes – as they should. Our own institutions run academic and practitioner conferences on the multi-generational workforces. As lives get longer, we must take into account the needs of the millennial generation certainly. But we must also come to terms with an ageing workforce that needs to continue to work well past traditional retirement ages as once sacrosanct promises of adequate pension and health care provision are reduced.

Conferences on global disruption and organisational responses have taken note of a world of volatility, uncertainty, complexity and ambiguity (VUCA) where droughts, floods and other environmental disturbances lead to refugee crises and population displacement.

Technological changes as well as the shifting of economic growth from traditional Western powers to the rapidly developing economies of

4 *Rethinking the Business Models of Business Schools*

China and India and the southern hemisphere have led to new questions of dissatisfied populations and self-serving national agendas.

These changes and global events provide management scholars with ample topics to explore in research, writing and teaching. But while the world of business has been changing dramatically, the world *inside* the business school continues in the same manner and tradition as it has for decades.

Since the turn of the millennium, and certainly in the period following the great crash of 2007/2008, graduating students have switched their career goals from a job in investment banking and prestigious consultancies to joining “cool” technology companies, internet-based startups, social media plays, games and niche retailing. Observing these trends from inside, traditional business schools have generally not been inclined to disrupt their own models of delivery. Yes, there are on-line courses and other changes around the periphery but the core business of business schools remains relatively static. This begins to raise questions over the legitimacy and impact of business schools in today’s fast-paced business environment (Pettigrew and Starkey, 2016).

Business schools have, it must be noted, regularly tried to turn the mirror on themselves. Each of the major global business school associations regularly run conferences on themes such as the AACSB’s 2016 Deans conference on “Innovations that Inspire”; and the theme for 2017 was “Can business schools be the leading catalysts for innovation and new business creation?” The EFMD’s 2016 Deans and Directors conference was themed “Business Schools: Purpose in Context”. The subsequent 2017 conference in Ljubljana, Slovenia, was entitled “Leading in a world of uncertainty”. Similarly, themed events are regularly organised by GMAC, AMBA, CABS in the UK and similar organisations bringing together deans and senior managers from business schools around the world.

At the end of the day, however, as the 2011 report of the AACSB International’s Globalization of Management Education Task Force notes in *Globalization of Management Education: Changing International Structures, Adaptive Strategies, and the Impact on Institutions*, business schools have been slow to take disruption seriously: “...compared to the business environment, higher education tends to be more tightly rooted in tradition, and tends to encounter more inertia than business in the face of change” (AACSB, 2011, p.13).

This trend to highlight conference themes as calls to action to business schools goes much further back than 2011. In the seminal 1988 book, *Management Education and Development: Drift or Thrust into the*

21st Century, Porter and McKibbin, commissioned by AACSB to write a book compiling and contextualising a three-year study on the state of business education, noted in their introduction:

“The study is unique in that it not only looks at management education as traditionally delivered through colleges and universities, but also focuses on other educational delivery systems, such as corporations, and third-party providers, which the earlier conference reports predicted would play an increasingly significant role in the years ahead as knowledge bases continue to grow and demands to enlarge the business school curriculum increase, the relationships among these three (types of) providers and decisions about who should teach what become more important than ever before.”

Overview of the Book

The goal of this book is to explore these issues and questions about the future of business schools. To date there has been thoughtful analysis and soul-searching by deans but not necessarily a lot of direct action or reaction by business schools. The aim here is to deconstruct and reconstruct the multiple value chains of business education across the extensive spectrum of business school activities. Breaking business school behaviours into stages in their various chains means unashamedly wearing managerial hats and looking at how the broad activities of business schools operate. This involves looking at income streams and at service providers, who affect what we do, how we do it and what we genuinely need to consider in the short, not the long, term.

Whether they like it or not the vast majority of business schools need to be aware of the market. With the exception of a fortunate few, almost all business schools cannot fall back on state guarantees nor extensive endowments for their financial viability and future success. Business schools are businesses and this book is about the “business of business schools”.

Structurally, the book is straightforward, beginning in Chapter 1 with an overview of the extensive literature about and around business schools though it notes that there is surprisingly little about the theme of this book, the business of business schools.

Many elements and perspectives exist. In fact, there has been a boom in writing about business schools in recent years. However, much of the analysis is based on observation coupled with a fair amount of criticism and hand-wringing. Whereas Porter and McKibbin, writing in 1988, state that their “report documents the first systematic study of its type in over 25 years and exemplifies an internally generated evaluation of management education, as compared to the externally driven Ford and Carnegie report of the late 1950s” published output in the period since 1988 and certainly since the turn of the millennium has been profuse.

Chapters 2 and 3 propose and develop the various value chains operating within business schools. Not all value chains exist in every school but every school has a number of value chains with different challenges and opportunities. As one of the present authors was told by a trustee, “Your school is more complicated than a multinational organisation.” This book provides a simple value chain analysis for the various “product offerings” of a business school including undergraduate degrees, pre-experience postgraduate programmes, the MBA, the Executive MBA and executive education. Outsiders often view business education as a simple process but deconstructing each of these offerings illustrates the synergies as well as the large differences in each. Challenges that are seemingly unrelated to education such as housing, meals, transport and other such services have become integral to many management education offerings in recent years as well as other trends driving the challenges and competitive issues that many business schools face today.

We also describe and analyse new entrants, or third-party providers, who are clearly seeking to achieve economic success in their interactions with the business education market. There is no attempt to present an entire overview of all new providers or alternative provision that exists; this is not a market study. But it does seek to be more a typology of players illustrated with examples rather than a holistic overview, which would be thankless and impossible in a fast-moving environment.

Chapters 4 and 5 explore the value proposition of business schools and the associated implications on their financial models. Considering the business of running a business school starts with the value proposition that immediately shows a clear bifurcation of interests.

On one hand is a traditional university orientation that proposes providing education for students in a way that creates human capital to benefit society. This society-based orientation generally reflects a strong fit with government funding in support of the associated economic benefits.

On the other hand, is a strong return on investment (ROI) orientation as a value proposition for management education. As an example, potential MBA students are often found calculating the anticipated future returns (high salaries and career prospects) against the high costs (fees, housing and opportunity cost) of attending a full-time MBA programme. This ROI-based value proposition has significant implications for business schools as it creates a foundation for increased competition with clear implications on the financial model. The ongoing debate of offering programmes that are immediately relevant to business *vs* finding ways to expand the horizons of comprehension of students can weigh heavily as educators consider curriculum and offerings (Chia, 2014).

In addition to considering the sources of financial income for a business school, the book looks in detail at the income streams within a business school in significant detail and through various lenses – in the round, per activity, per student and per faculty member. In response to the changing nature of management education, it also introduces a potentially controversial model that we call a “revenue delivered view” of measuring contributions and aligning efforts toward the profitability outcomes. As is noted, the increasing pressure and orientation on margins in business schools is starting to shift the competitive landscape.

Chapters 6 and 7 look at how business schools might consider future uncertainty in the external marketplace while also striving for innovation driven by internal capability. Addressing these areas begins by examining what the literature tells us about future leadership needs in driving innovation. Just as our own scholars discuss the critical role of the CEO and top management teams, business schools must take note of their own future leaders and leadership teams in the light of anticipated dilemmas that future business school deans will need to address related to the internal innovation and management of their schools.

The external business and management education marketplace is changing rapidly as new extensions, acquisitions, mergers and alliances take shape. This is particularly true with stand-alone private business schools. As new models for management education continue to evolve, so too do the players, models and partnerships. Different forms of competitive advantage lead to an examination of both the drivers for mergers and acquisitions within the sector as well as to case examples of new constellations of the value chain.

The book’s conclusion is a synthesis that fully recognises and values the tremendous contributions that business education and business schools provide for their students and society at large blended with

a call to arms that we practise what we preach. We have been a part of the tremendous growth and success with business schools around the world over the last few decades. Looking forward we see the signs that our own industry is poised for disruption. We hope that our collective efforts will contribute to how we might manage our affairs well into the future as stewards of business schools.

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