GLOBAL MBA CHALLENGES AND NEEDED B-SCHOOL CHANGES*

Dr. John T. Delaney
Dean
Katz School of Business University, Pittsburgh

Since the end of WWII, business schools have shaped commerce through the education of managers and the development of systematic solutions to existing business problems. B-Schools have ushered in and managed the technology revolution that has altered the production of goods and services and disrupted labor markets. B-Schools have been created across the world, in part to accelerate the expansion of commerce. In the 1980s, demand for the MBA degree created an opportunity for universities to generate net revenue regardless of competition and employer needs. Since the global recession of 2008, however, the environment has changed and B-Schools have seen a significant growth in competition and new challenges that threaten the models and ideals governing business education. Although enhancements to technology have affected the situation greatly, the very success of business schools has also contributed to the circumstance. Specifically, success has made schools comfortable, reduced the urgency afforded to innovation, and directed the reward system towards publication outcomes rather than education, entrepreneurship, or practice outcomes.

In this environment, the B-School Dean plays a critical intermediary role. Faculty governance means that the Dean is not an unequivocal boss. Whereas the Dean has some power, it is circumscribed by normal academic traditions. A Dean must rely on other influence strategies to manage faculty and promote the accomplishment of specific B-School objectives. The most critical skills for the Dean to possess are vision regarding the future of business education and insight into university politics. The skills are more important than ever because of developments that have occurred across universities.

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First, faculty have become acclimated to arrangements that pay handsomely, provide substantial time for research, and allow great autonomy regarding topics studied and lessons taught. Because most schools have greater incentives associated with research, this has encouraged faculty to devote most efforts to scholarship and to direct the work at top journals as defined by a discipline, school, or field. It is noteworthy, however, that this incentive system encourages faculty to act as free agents and discourages behaviors associated with outcomes important to schools and students (e.g., teaching and service-leadership activities). Whereas professors accepted the need to teach an appropriate number of students in the past, today faculty often seek to reduce teaching load through any means. Ironically, faculty behave like research professors – individuals focused only on scholarship – in jobs that expect a reasonable amount of contact with students and other constituencies.

The research issue has been magnified as more international schools adopt US standards and cultivate a generation of scholars seeking to publish articles in top journals. Ironically, the volume of additional faculty seeking to publish has generated more competition for scarce journal space, which makes journal acceptance rates decline, and pressures faculty to devote more time to research. Unfortunately, the world of "publish or perish" has not relieved the pressure on universities and colleges, some of which are facing extinction given the breakdown of regional monopolies, high costs, and a demographic notable for the increasing number of baby boomers moving into retirement. An interesting essay in the *Chronicle of Higher Education* concluded that faculty are perishing despite publishing; the author suggested that the real challenge today is to "teach or perish" (Berlinerblau, 2015).

When I started my career at an Ivy League school, we were expected to teach 4 courses (12 credits) per year and publish regularly. Our teaching load was lower than the required load at many other schools. Today, new professors – and productive senior faculty – expect a teaching load of 3 courses (9 credits) or less. The reduction of time in the classroom is intended to allow more time for research. Improvements in technology have also aided this transition, as publishers provide expanded resources to professors who adopt their books, allowing the faculty to devote less time to the courses being taught. And, at least in B-Schools, the use of multiple choice tests permits faculty to spend less time grading.

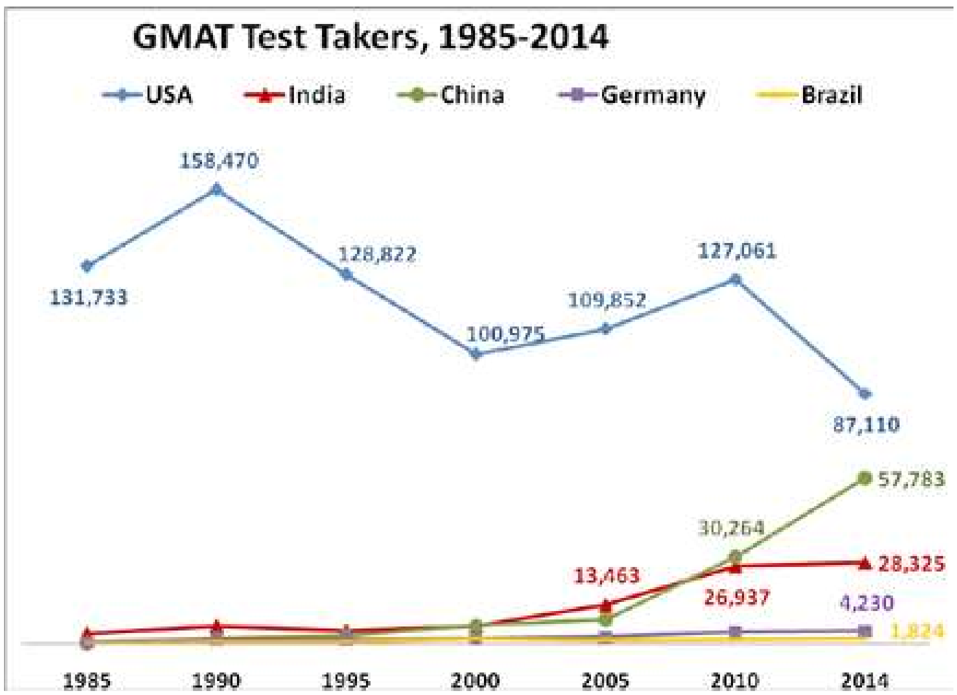
The situation has created a difficult challenge for Deans as faculty time is critical to research and teaching outcomes. It is unrealistic to assume that faculty can be equally successful at each task. Indeed, the lack of clarity regarding what is expected of faculty compounds this problem. College costs have risen in part because of this situation, as schools must hire more teaching faculty to provide research faculty with time for research. The resulting situation has caused some observers to pillory faculty as elitist and out of touch. While the characterization is essentially a distraction from the underlying question or what role faculty should play in a school, the increasing antagonism serves to reduce public trust in higher education. For example, 61% of respondents to a 1966 Harris poll reported a "great deal of confidence in colleges and universities." In 2011, only 30% of respondents reported the same feeling. The change is consistent with declining confidence in many other institutions (Harris Interactive, 2011).

The situation has created an atmosphere in which schools strive to generate adequate revenue to underwrite the cost of a business education. That is, because there is little focus on cost management, schools have been put in a situation requiring an emphasis on revenue generation. Chart 1 and Table 1 each illustrates this challenge. Chart 1 provides information on the number of GMAT test takers over the years 1985-2014. It shows the clear decline of U.S. test takers and an increase in Chinese test takers over time. B-Schools had to adjust their approaches to deal with this change. More importantly, U.S. B-Schools had to deal with declining local applicant pools for the MBA degree.

Table 1 uses data from a fixed set of schools – the top 25 schools in the 2014 US News ranking list – to illustrate school responses to the changing circumstances. In general the Table 1 data suggest several clear patterns.

First, only 3 of the top 25 programmes report having fewer students in 2014 than in 2005. These top schools have used their market position to expand. Second, on average the schools have expanded the number of programmes offered in 2014 relative to 2005. This change has occurred as part of a strategy aimed at increasing revenue. Third, the top 10 schools offer fewer programmes than schools ranked 11 to 25. The average number of programmes for the top 10 schools is 4.6 and the average number of programmes for schools ranked 11 to 25 is 6.7. Having fewer programmes is an advantage for faculty as it avoids the need to develop new courses or make existing courses more specialized. Fourth, and unsurprisingly, the number of students per programme is greater for the top 10 schools than the other schools.

Chart 1: GMAT Test Takers from Selected Countries, 1985-2014



The top business schools have used their market position to enact strategies aimed at generating additional revenue. The top 10 schools have done so primarily by increasing the number of students in existing programmes. The other schools have done so by adding programmes. The additional students provide revenue needed to support school operations. There is a difference between the top 10 schools and the others, however, and it provides a critical lesson. In instances in which schools must add programmes to generate additional revenue, they potentially shift additional costs on faculty who need to cover courses in the new programmes.

This essentially means that schools outside the top 10 are risking the need to hire more faculty in order to maintain their existing market strategies.

Business schools have been able to capitalize on their success by adopting approaches aimed at generating revenue for faculty. The new revenue allows faculty to teach fewer courses while earning the same high salary. The new revenue pays for additional teaching faculty to cover classes for the additional programmes and larger enrollments.

Table 1: B-School Programme Expansion, 2005-2014

B-School	Degree Programmes, 2014	Degree Programmes, 2005	Students, 2014	Students, 2005
Harvard University	2	2	2,009	1,891
Stanford University	3	3	1,000	820
University of Pennsylvania (Wharton)	4	4	3,977	4,630
University of Chicago (Booth)	4	4	3,297	3,100
MIT (Sloan)	7	NA	1,239	NA
Northwestern University (Kellogg)	5	4	2,378	2,390
University of California -- Berkeley (Haas)	6	6	2,278	2,134
Columbia University	6	3	1,533	1,196
Dartmouth College (Tuck)	1	1	560	480
New York University (Stern)	8	5	5,853	4,756
University of Michigan -- Ann Arbor (Ross)	8	6	3,295	2,792
University of Virginia (Darden)	3	3	855	600
Yale University	4	NA	596	NA
Duke University (Fuqua)	5	3	1,500	1,400
University of Texas -- Austin (McCombs)	9	6	6,301	5,897
UCLA (Anderson)	5	4	1,750	1,400

Cornell University (Johnson)	4	3	975	765
Carnegie Mellon University (Tepper)	6	6	1,305	1,399
UNC -- Chapel Hill (Kenan-Flagler)	5	5	NA	1,749
Emory University (Goizueta)	5	5	NA	NA
Indiana University -- Bloomington (Kelley)	6	5	5,480	4,600
Washington University in St. Louis (Olin)	10	NA	1,948	NA
Georgetown University (McDonough)	7	4	2,353	NA
University of Notre Dame (Mendoza)	8	5	2,600	2,252
University of Washington (Foster)	7	NA	NA	NA

The hidden danger in the approach adopted by business schools is the possibility that demand for business education might decline, which would cause revenue models to fail. Chart 1 shows that demand has not declined globally, but has declined at the local level. The changes are causing pressure for B-Schools, as they need to find ways to maintain revenue streams to cover cost structures. Assuming that faculty are not prepared to accept lower salaries and benefits, this means that the failure of revenue models will likely cause schools to close. On the contrary, if schools had addressed cost side issues more systematically, they would have the potential to adopt lower cost models and could deal more effectively with fluctuations in revenues.

A variety of additional problems exists in today's B-School model. Because faculty are acculturated to value research above all else, they devote their time to research activities. Paradoxically, the situation causes faculty to under-invest in the activities associated with the school's success and to overinvest in activities associated with faculty outcomes. It is not clear whether this is a higher education issue or a B-School issue, but the net impact is the creation of a situation that cannot survive.

In this environment, it is critical for deans to manage the conflicting circumstances. On the one hand, it is important to hire and retain top quality faculty. This requires knowledge of faculty markets and attention to adjustments that ensure adequate availability of teaching faculty. On the other hand, it is necessary to offer a high quality and up-to-date business education. This necessitates adequate attention to the knowledge business graduates must possess to secure and maintain employment. I believe that our efforts to provide deeper knowledge to students encourage the creation of silos and discourage emphasis on opportunities that exist across areas. The problem is pervasive in our systems of business education – even inherent in the models we use. In an effort to provide more to students, especially deeper knowledge, we focus on digging deeper wells in separate areas of finance, accounting, management, marketing, operations, ethics, and so on. We don't have time to connect the wells and we don't have an incentive to remove any of the wells. Faculty have largely been trained in the different areas and the tenure process discourages them from taking a new perspective on traditional issues. As a result, we add more of the same material to our classes, regardless of whether students can digest it or its relevance is declining.

The problem is compounded by the nature of the times, in which much more competition exists across business schools and core programmes, such as the FT MBA, are declining in enrollment. As noted above, schools have created new programmes to stabilize enrollment. The new programmes, often specialized graduate degrees, in areas ranging from analytics to supply chain management, leverage the disciplinary training and view of faculty members. At the same time, the programmes stretch faculty resources while meeting revenue needs. The development of these programmes also makes clear the need for a variety of changes in business education.

Changes needed in MBA programmes for the future

The current environment of business requires adjustments to business and MBA course work. First, one of the challenges for B-Schools today is to integrate technology effectively into programmes and courses. In particular, predictive analytics promise to reshape commerce by using information to infer behavior. Students need to be aware of predictive analytic techniques and other ways to use information effectively. Because business programmes have always been analytical and quantitative, this will not create a problem for students. As information analytics becomes increasingly important to the economy, B-schools must include enough courses relevant to analytics and prepare students for the economy based on predictive analytics. This may mean that students need more exposure to research methods courses, attention to statistics and methodologies, and exposure to required quantitative projects.

While not typically apparent, students also need to learn how to ask questions, what questions to ask, and how to assess the value of different results. In particular, as attention to analytics grows, many schools pay little attention to the questions being asked – assuming that students know that part inherently. Such is not the case. B-Schools must pay attention to course work that develops critical thinking skills.

Second, another curricular adjustment arises from the changing landscape, but for a completely different reason. At a time when technology is driving business efficiencies and reducing employment, the subject of ethics is becoming more important. B-schools must integrate the ethics into the curriculum much more effectively than has been the case in the past. AACSB accreditation requires that students are exposed to ethics and gives schools much latitude regarding the nature of the exposure. Some schools offer separate courses in ethics and others seek to make ethics a component of each course. And a small subset of schools incorporates ethics into the programme in other ways. For example, a few schools emphasize the MBA oath as a way to encourage ethical behavior. Some do so in conjunction with ethics coursework and some without.

The trouble is that none of the approaches regarding ethics has worked. Given the recent ethical lapses in the financial industry, it seems that there is considerable unethical behavior today. And business schools have been reluctant to take any responsibility for the situation. We give many reasons why we cannot control what students do after they graduate. At times we seem to use this as justification for doing little in the area of ethics education.

The stakes are greater today than ever before. We must find a way to implement solid ethics training. Our credibility is at stake. If people lose trust in business schools, it will translate into lower enrollments and less influence. Some observers believe that schools will never be affected by recurring scandals. Some believe that it is impossible to teach ethics and suggest that we shouldn't try to do so. In reality, schools need to put students in situations that demand action and evaluate the integrity of the resulting decisions. Courses need to focus on behavior rather than philosophy and action instead of attention to different rubrics. It is an area in which empirical research and predictive analytics are relevant. It is necessary to have high expectations of students and to expect them to demonstrate high integrity in the future.

Third, more attention must be paid to skills that are not susceptible to computer substitution. In business schools, we have paid more attention to quantitative courses and subjects with mathematical proofs than courses dealing with social interactions. Yet, over time the primacy of finance may wane because key finance skills will increasingly become overseen by machines. By contrast, issues that require social judgment, such as teamwork, negotiation, conflict management, will become critical differentiating skills. Over time, B-schools must ensure that students develop these complex human skills even if it upsets the traditional order of schools and faculty.

Fourth, the faculty governance processes B-schools have used historically are deliberative and often decisively slow. These processes have worked effectively over the years to ensure faculty made wise decisions regarding changes. The processes, however, did not assume the existence of major and fast-acting environmental changes. As a result, they can slow the ability of schools to make fast adjustments to curriculum given changes in the economy and market demand. It is important to note that the issue is not to eliminate governance processes. Instead, the objective is to increase the speed of governance. This can be done by changing governance processes so electronic decisions are possible, instead of the need for lengthy meetings. It can be done by judging changes after the fact instead of prior to enactment. It can be done by making governance more important instead of having it serve as a process that takes excessive time. The B-schools that find ways to manage the governance process more effectively have the option to become more effective in educating students.

Fifth, B-schools need to instill innovation and resourcefulness in students. Students should be exposed to electronic currencies and new ways to pay or barter for goods or services. Students need to have real projects on which they work, as well as opportunities to make recommendations and defend them. Multiple choice tests should be dropped and competencies should be evaluated. The issue here is to expose students to new approaches and ideas to prepare them for times when the world seems to be upside down. Too often our courses are comfortable renditions of normal conditions, which in turn provide little guidance to students. An emphasis on experience (doing) over listening will help achieve this outcome. And one example of a place to start is the extent to which students get an integrated international experience. Schools need to go beyond traditional study abroad models to provide proper exposure to global commerce.

Finally, B-schools need to identify a better balance between research and teaching and provide adequate rewards to faculty who emphasize their teaching abilities. Currently, research is king and rewards are more associated with publishing than with teaching. While there is value in research, its overemphasis can lead to misplaced faculty priorities. The underlying issue here is that the overemphasis affects the time allocations of faculty members and creates a potential disconnection with students who are seeking as much time and learning as possible.

B-schools have an opportunity to help universities adjust to the expectations of today's students. Our advantage is the fact that we emphasize practical skills in a curriculum that contains rigor. We regularly encourage cross-disciplinary collaboration and the interconnection of different areas. As the world continues to use analytics to generate efficiencies, B-Schools have an opportunity to provide students with the proper blend of critical - thinking and career skills, which in turn will allow the development of strong careers. In the end, we must be evaluated by the opportunities we provide to our students. We will succeed only if our students are successful.

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