The changing business model of B-schools

Santiago Iñiguez de Onzoño and Salvador Carmona
Instituto de Empresa Business School, Madrid, Spain

Abstract

Purpose – The purpose of this paper is to argue that recent changes in the wider contexts of universities and business schools signal a shift in their business model instead of a mere turn in their business cycle.

Design/methodology/approach – The paper reviews the position of those that hold a traditionalist view of the business model of business schools and comments on the extent to which such a model applies to the ever-changing conditions that are a feature of the environment of institutions of higher learning.

Findings – The paper argues that the process of globalization augments the effects of five sector-specific forces on the business model of business schools. Additionally, the paper identifies some structural factors that business schools might wish to address in order to cope with changes occurring in their wider environments.

Originality/value – In addition to structural measures, the paper proposes a number of specific actions that business schools may implement to maintain and/or gain competitive advantage.

Keywords Business schools, Business environment, Competitive advantage

Paper type Viewpoint

Nowadays, administrators and top officers of universities and business schools continually engage in a debate on the drivers of the ups and downs in the demand for MBA programs and MBA graduates. In this respect, we contend that such shifting demand is caused by active sources of change arising in the wider contexts of business schools. Furthermore, we suggest that the current process of change transcends the notion of a new business cycle to result in a different business model for business schools. In the present article, we examine the nature of these environmental transformations and propose structural measures that business schools might wish to deploy to cope with changes occurring in their wider contexts. In addition to this framework of structural measures, we propose a number of specific actions that may produce a good fit between business schools and their ever-changing contexts.

The global market and the B-schools

The process of globalization that influences the strategy and operations of firms also exerts a considerable impact on business schools. According to the Corporate Recruiters Survey made by the Graduate Management Admissions Council (GMAC), the demand for MBA graduates will increase by 18 percent in 2006 with respect to 2005. Furthermore, *Fortune* magazine reported that 98 percent of business schools experienced a substantial increase in job offers to their MBA graduates in 2006, whereas 42 percent of US MBA programs reported more recruiters coming to campuses (Holtzman, 2006). And the demand for the Graduate Management Admissions Test (GMAT) exam is increasing, too. The declining trend of the last

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four years is shifting now, as shown by the increasing number of prospective candidates attending MBA fairs.

In the past, business schools have experienced ups and downs in demand for their MBA programs and MBA graduates. Such changing demand was the ultimate consequence of the evolution of domestic economies, implying a decreasing number of applications for MBA programs in periods of economic recession, and otherwise in situations of expanding demand. Under the process of globalization that is affecting business schools, such demand is much less contingent on the short-term performance of domestic markets.

Importantly, business schools have addressed differently the increasing demand placed on their programs from a much wider range of students established in other countries and regions (Lorange, 2005). Some business schools have implemented strategic alliances with partners from other continents, which also enable the mobility of faculty and students across regions (e.g. the SUMAQ alliance, implemented by the Instituto de Empresa Business School in Spain and leading business schools and universities in Latin America). On the other hand, some business schools have set up new campuses in other continents (e.g. the campus of INSEAD in Singapore; see Hawawini, 2005), whereas other schools and universities have drawn on online technologies to meet the distant and wide-ranging demand for their programs (e.g. the Open University).

The globalization process constitutes a general phenomenon and, as such, it exerts a lasting influence on the way of doing business in today's world. Additionally, the business model of business schools is influenced by a number of driving forces that are sector-specific. In this respect, we argue that the globalization process catalyzes the effects of such driving forces, by ultimately augmenting their effects on the business model. The remainder of this paper is organized as follows. In the next section, we will examine the forces that drive change in the business school's model. Next, we will comment on the courses of action that business schools could implement to cope with environmental changes. Finally, we will suggest some measures that might help business schools to anticipate change arising in their wider contexts.

The drivers of the business model

In the present article, we identify five sector-specific forces that drive change in the business model of business schools. We suggest that such forces consist of the structure of the MBA programs, the sources of income of business schools, market concentration, the new profile of customers, and the changing distribution channels. As noted above, the effects of such sector-specific sources are augmented by the effects of the globalization process that influences the functioning of business schools and universities from around the world.

The structure and forms of delivery of MBA programs

Some of the basic tenets of the business model of business school are under severe questioning. As far as educational programs are concerned, the notion of the MBA is experiencing substantial change. In contrast to the traditional idea that MBAs encompassed two-year, full-time and classroom-based programs, business schools are continuously redesigning the structure and contents of their MBAs to make them flexible and appealing to an ever-dynamic demand. Consequently, an increasing number of business schools are shifting from two-year to one-year MBA programs, and this trend particularly applies to new entrants into the market of MBAs (e.g. Said Business School in 1996 and, more recently, ESMT in Berlin in 2006). There are several reasons that may justify the preference for one-year MBAs:

- Education is not a one-shot option but rather should be extended over an entire professional life. Indeed, updating business knowledge and perfecting managerial skills is a continuing need.
- The opportunity cost of being out of the market for a long time is becoming increasingly high.
- Many analysts believe that one-year MBAs satisfy the basic needs provided by the two-year ones. True, the intensity and workload of one-year programmes may be heavier, but this in turn is in line with the demand for higher productivity that managers face nowadays. In fact, many times graduates of one-year MBAs meet their fellows of two-year programmes during recruiting processes with equal chances of being hired by the same companies. In the case of European universities and business schools, the movement towards one-year MBAs might be reinforced by the incoming legislation of nation states to enforce the Bologna Accord.

In a similar vein, business schools seemingly assumed that the mode of education was classroom-based. According to the position of traditionalists, the classroom constituted an intrinsic element of the model mode that education should be delivered by business schools. According to supporters of this approach to business schools teaching, other possibilities did not provide the conditions that ensured successful learning (e.g. distance education). However, the proliferation of other modes of education questions the support for this assumption. For example, a growing number of business schools and universities rely on online education. In some cases, programs take a blended format, combining face-to-face and online teaching (e.g. the International Executive MBA of Instituto de Empresa Business School). Also, other universities and business schools have launched programs that rely solely on online teaching (e.g. the Thunderbird Global MBA, with satellite broadcasting). In this respect, business schools participants in blended and online programs report higher satisfaction than their counterparts taking traditional, classroom-based programs. Interestingly, business schools offering blended or entirely online programmes are trying to provide the best possible replica of conventional classroom methodologies, and not those characteristics of massively distributed learning. This includes, for example, rigour in the process of selecting students (normally absent in big distance learning universities), employing the school's full-time faculty and offering equivalent support and services to participants.

Applicants to MBA programs share time constraint problems. At the time of the application, candidates report prior professional experience and have a job. Under these circumstances, it makes sense for many of them to participate in a part-time MBA instead of breaking their professional career to take a full-time MBA. Such a decision, we contend, is highly influenced by the working conditions and market prospects of candidates; they would strive to keep their present jobs and capitalize on the market prospects and opportunities provided by their MBA, once the program is successfully completed. Echoing this demand, business schools launch a wide variety of part-time MBAs, ranging from night MBAs through fortnightly MBAs, which offer participants the chance to combine professional and educational activities.

Sources of income

Business schools and universities have experienced dramatic changes in their sources of income. Typically, state-owned institutions of higher education have received substantial funding from state subsidies; students paid a symbolic tuition fee, whereas the state provided universities with the rest of their income. In the extreme case of Swedish universities, students traditionally did not have to pay a tuition fee at all but the government funded the entire university's budget, and this tuition free model also applied to foreign students. In the case of Spanish universities, the state provided centres of higher learning with a lump sum of funding that was not contingent on the volume of enrolment. Under such circumstances, state-owned universities of many developed countries had poor incentives to enhance their administrative processes, the quality of teaching and research, and become efficient and competitive.

Since the late 1980s, Western nations have witnessed the emergence of a new style of public management. Put concisely, the public sector had "to do more with less". In the case of public universities and centres of higher education, the enforcement of this new public management regime meant that higher education institutions would no longer receive lump sums of state subsidies independent of the volume of enrolment. In some cases, the enforcement of the ideas of new public management introduced the criterion that state funding became a function of the level of enrolment, which ultimately helped to instil competition in the market of prospective students (e.g. Spain). Other countries went a step further, as in the case of the UK, where students currently make a substantial contribution to the actual cost of their tuition fee ("top-up" fees of £3,000 per year).

In a similar vein, research funding from the government has shifted from across-the-board subsidies to a system that makes them contingent on the outcomes of exercises of research assessment. Such exercises adopted formats ranging from the evaluation of research performed by university departments (e.g. in the UK, the Research Assessment Exercise; RAE) through assessments of the research outcome of individual scholars (e.g. in Spain, the Comisión Nacional de Evaluación de la Actividad Investigadora; CNEAI). In the former case, university departments with high rankings receive funding and legitimacy, and enjoy high prospects of attracting the best students as well as wealthy sponsors. In the latter case, scholars with positive assessments can increase their salaries as well as enhance their academic reputation, and this provides them with an influential position relative to their peers.

Overall, the level of public funding to universities and institutions of higher education is decreasing and, in most cases, becoming increasingly dependent on teaching and research performance. At the same time, governments of developed countries converged in their allocation of funding to educational activities of higher learning. According to Lambert (2006):

> Public funding for higher education represents about 1 per cent of GDP for the 25 EU countries; roughly the same proportion as in the US. Private funding in the US amounts to a further 1.4 per cent of GDP, and the average in countries of the Organisation for Economic Co-operation and Development is 0.8 per cent, compared with only 0.1 per cent for Europe.

Market concentration

Coupled with the idea of linking funding to performance was the initiative of many nation states to increase competition within the sector of higher education institutions. In Europe, for example, universities witnessed a considerable increase in the number of actors operating in the market of higher learning. In the case of Spain, 23 universities offered degrees in business administration in 1989 and this number increased to 46 institutions in 2005. Similar rates of growth are reported for both Southern (e.g. Italy) and Northern European countries (e.g. Sweden). More specifically, German-speaking countries witnessed advances in the number of university chairs in "Controlling" from 17 in 1989 to 72 chairs in 2005 (Schäffer and Binder, 2006).

Such steady growth in the number of players in the market of higher education in Europe brings about considerable differences in the market concentration in Europe *vis-à-vis* the USA. The European market is highly fragmented and formed by nearly 2,000 universities offering graduate degrees and aspiring to conduct research. In the USA, conversely, 2,501 universities offer such programs. Importantly also, there is an even lower number of US universities and business schools conducting research in business administration (Lambert, 2006).

The US and the European higher education markets also differ in their constitutive elements. According to Frey and Eichenberger (1993), there are two kinds of market of higher learning: the regulated markets, which they label as "R-markets", and the competitive markets, which they label as "C-markets". In general terms, Frey and Eichenberger (1993) equate the C-market to the North-American market, whereas the European market constitutes a good example of an R-market.

C-markets, according to Frey and Eichenberger (1993), are large, uniform and competitive. Consequently, there exists a high mobility of academics. In such markets, promotion and compensation are linked to objective, impersonal measures of performance (e.g. evaluations performed by peers). Even if the markets have a low number of players, issues such as a common language (e.g. English) make them highly competitive at the time of searching for students, faculty and funding.

Conversely, the R-markets are highly interventionist. In the case of the European market of institutions of higher learning, the national language constitutes a barrier that prevents the mobility of resources across countries. Consequently, the large number of players in the European space of higher education does not necessarily imply mobility and competition. On the other hand, the market is relatively thin and incomplete. Faculty members are usually civil servants, and this implies that their salaries are non-competitive but also involve life tenure. Importantly, the evaluation of faculty is not necessarily based on objective measures of performance but takes into consideration aspects such as service and academics belonging to a "school of thought".

In developed countries, there is a process of convergence towards C-markets. In the case of the European market of universities and institutions of higher education there exists a slow trend towards the C-markets. This trend is led by the UK, which has enforced objective processes of assessment of research performance and established tuition fees that close the gap between prices and actual costs. Furthermore, the UK publicizes official rankings of university departments across all areas of knowledge in order to make the market more transparent to students and stakeholders. Other European countries have started to follow suit (e.g. The Netherlands). This process of convergence towards C-markets and truly global universities and business schools will be given greater impetus through the implementation of the Bologna Accord, which will enforce a real market of higher education in Europe.

In global terms, the market for business education is experiencing a trend towards concentration and competition. In addition to the regular US and European destinations, business schools and universities in countries like Australia and Canada are gaining in visibility and market share. Furthermore, the boundaries of the sector are becoming fuzzier. Some years ago, we might believe that corporate universities, consultancy firms, and large online organizations operated in a different segment from that of traditional universities and business schools. Currently, though, there is evidence of increasing competition from such sources. The sector has witnessed the growing importance of institutions like Fundaçao Dom Cabral in Brazil, whose organizational structure and internal functioning are similar to those of consultancy firms (Monteiro, 2006). In a similar vein, some firms are launching their own universities, which offer executive education to employees. According to *Fortune*, 40 percent of its *Fortune* 500 firms run their own corporate university. Additionally, some recent entrants to the market of business education introduce innovative organizational forms (e.g. Apollo). Importantly, these new players report considerable success and ultimately become a threat to established business schools (Vega, 2006).

The profile of customers

The profile of business schools' customers is changing dramatically. Some years ago, the MBA constituted the main program offered by business schools. Typically, applications to MBA programs came from men living in the same country where the institution was established. In such a stable, predictable environment applicants usually averaged five years of professional experience. At present, this "standardization" of the applicant's profile no longer exists. Universities and business schools experience a growing diversity in the profile of their applicants, even for MBA programs. In turn, such diversity results in a larger number of women and a more balanced mix of nationalities participating in business schools' programs. In short, the needs and characteristics of MBA candidates are changing. As noted by some commentators:

> People are going into MBAs for a greater variety of reasons, such as self-improvement and a career change; for example, going into a not-for-profit organisation. People increasingly ask: is my job fulfilling? Does it have the same values as I do? (Dight, 2006).

This opens the market to new profiles but also forces a change in our marketing strategies in order to attract the new generation of students

Customers of business schools are not constrained to MBA candidates. Top management, senior executives, middle managers, and high-potential organizational members represent a non-exhaustive list of potential customers of business schools. In turn, this diversity in customers introduces considerable complexity in the functioning of business schools as well as in such a crucial process like program design. Peter Drucker, in one of his more recent addresses, affirmed that "[t]he continuing professional education of adults is the No. 1 industry in the next 30 years [. . .] *mostly on line*" (Daly (2000)).

The distribution channels

The internet constitutes a definite distribution channel of business schools. In the past, MBA fairs, advertisements in the financial press, conferences, and *ad hoc* presentations represented the usual channels for business schools to get in touch with potential applicants. Currently, the role of traditional distribution channels is subordinate to the internet. Our data reveals that potential applicants gather from the internet the most sensitive and important information about business schools, such as location, percentage of international students, rate of gender, or value for money. Furthermore, some business schools rely on new technologies such as the iPod to keep a permanent, online channel of communication with prospective students, alumni, and other stakeholders.

What to do in the new environment?

Mainstream strategic thinking states that organizations should stick to what they know best, i.e. "stick to their knitting". In other words, firms should focus on their core areas of strength to exploit their competitive advantages. In spite of these recommendations, we would rather propose the viewpoint of thinking "out of the box" in order to address the challenges posed by the ever-changing environment of business schools on their business model. In this respect, we suggest that business schools might wish to undertake two structural actions. First, our institutions should adopt an entrepreneurial mindset. By doing this, business schools should undertake a continuous screening of the environments to reinvent themselves in an ongoing search for challenges and opportunities. Second, business schools should instil in their structure and functioning the idea of diversity. In this manner, our institutions will capitalize on the richness provided by the different cultures, languages, genders, and races of their students and staff. In turn, these two structural changes will help to mobilize more concrete actions, such as a focus on a portfolio of financial resources, segments of activities, geographical markets and strategic alliances (see Figure 1).

Portfolio of financial sources

Tuition cannot be the only source of revenue for business schools. Our research indicates that customers are becoming increasingly sensitive to program prices in recent years. Consequently, many business schools are taking the action of diversifying their offer, through programs like the Master of Science in Management (MSc). In turn, such MSc programs offer concentrations in a variety of areas, such as finance and marketing. Further, some business schools are launching DBA programs that attract the interests of managers with time constraints that preclude them from taking a full-time PhD program (e.g. Tulane University). Additionally, the executive education divisions of business schools are gaining share and prominence in the income structure of business schools as well as providing our institutions with a permanent contact with the demands and needs arising in industry. This, in turn, results in the allocation of an important volume of resources to designing and marketing executive programs.

As noted earlier, there has been a complete reshuffle in state funding and subsidies offered to business schools and universities. Currently, nation states and supranational bodies like the European Union are funding large research projects which offer the prospect of providing substantial prospects of publication in top-tier premier outlets

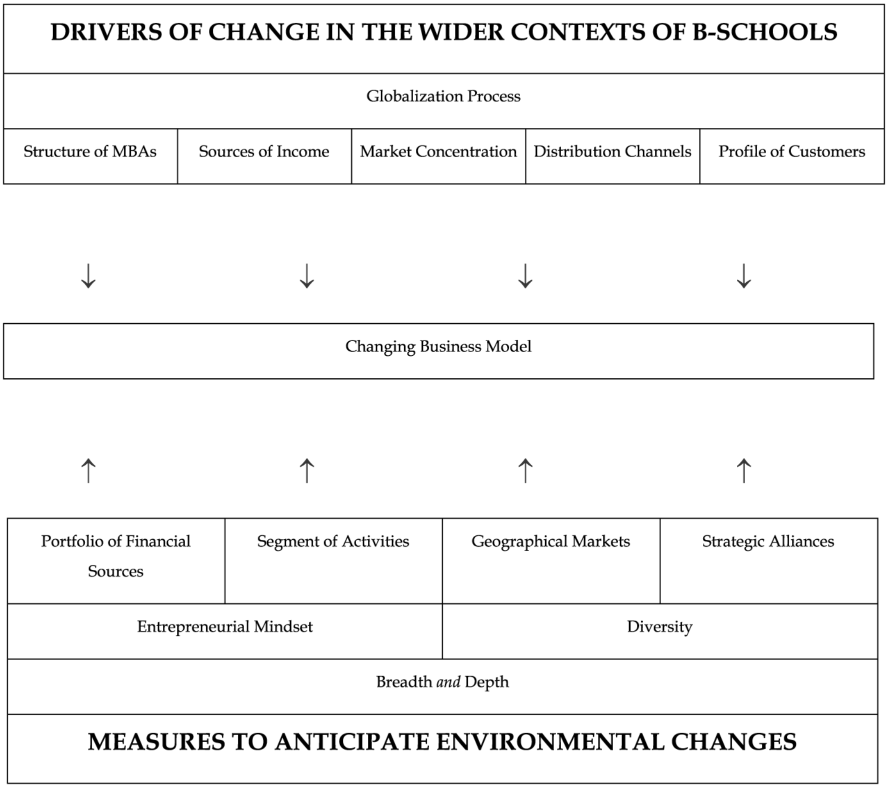

Figure 1.
Strategic responses of B-schools to environmental changes

(e.g. the RAE in the UK, and the Comisión Interministerial de Ciencia y Tecnología in Spain), or deliver reports that might add to management of firms (e.g. several editions of the EU Framework Program). Given such prospects, both national and supranational programs provide universities and business schools with an excellent opportunity to enhance their research funding, which, in turn, will require the hiring of faculty with such research backgrounds.

Rates of success in fundraising differ substantially between the USA and Europe, to name two clusters of developed countries. From our standpoint, we do not see much prospect of change on the part of European firms and institutions. Most likely, there will be a slow increase in the trend of endowment on the part of European universities and business schools. Nonetheless, some business schools are implementing innovative programs to raise funds from business stakeholders. At Instituto de Empresa Business School, for example, we are launching the idea of partnership, involving firms enrolling their employees in regular programs (Executive MBA), taking some in-company training, and ultimately sponsoring a professorial chair. In this manner, firms will have an incentive to launch a long-term relationship with business schools, which will provide their employees with state-of-art education as well as visibility to their brand name.

The publishing departments of some business schools also constitute an important source of income. Some business schools publish journals that are widely regarded by professionals and academics alike. This not only provides awareness of the school (e.g. Harvard Business School was a finalist for General Excellence in the National Magazine Awards of 2006), but also result in a substantial number of individual and institutional subscriptions. In turn, this adds to publications of hard-copy and multimedia cases, as well as research monographs and books. Altogether, the publishing activity of business schools should contribute decisively to their brand names as well as producing some tangible research results.

Segments and activities

The changing profile of customers and the varying demands of programs imply that business schools must be more flexible and responsive. Consequently, the portfolio of the educational offer of leading business schools typically consists of a wide range of programs, including regular programs (e.g. MBA, EMBA) as well as open programs for executives (e.g. the Global Senior Management Program, jointly offered by the Graduate School of Business of the University of Chicago and the Instituto de Empresa Business School), and in-company training.

Yet, changes in the demand and the profile of customers mean that some programs must undergo a complete reshuffle. For example, one of the oldest executive MBA programmes, the Sloan Fellows Programme, has had a complete makeover. In its present form, the program is more flexible and involves participants having a shorter absence from work. Other regular programs are becoming increasingly custom-based, as is the case with the MBA program offered at Stanford University. In its present design, the program enables students to tailor their course schedule according to their needs (Gloeckler, 2006).

Importantly, some universities and business schools are capitalizing on the wide profile of their faculty to offer programs with a core in business plus a concentration in other areas. In this manner, participants can benefit from an interdisciplinary approach to business that fits with the actual practice of firms. In this respect, the Instituto de Empresa Business School provides a good example of combination of legal and business education in its Master of Law (Executive LLM Program). This program offers a concentration in business and law as well as international cooperation between the Instituto de Empresa and Northwestern University of Law in Chicago, which in turn aims at providing students with an additional international experience.

Geographical markets

Diversifying into geographical markets can be thought of as physically moving into other countries and regions as well as a diversification of the profile of participants. Nowadays, there are well-documented prospects about the economic growth of Far East countries. Consequently, business schools are increasingly taking positions in that area, especially in China and India. Some of them have launched a campus in the region (e.g. the University of Western Ontario-Ivey has campuses in Hong Kong and London, Canada). Yet, other business schools spread their activities across their region of origin. INCAE, which was initially established in Costa Rica, presently offers courses in Central and South America. At the same time, other schools in Latin America have set up a considerable number of campuses in their home countries (e.g. Tec de Monterrey has 33 campuses in Mexico).

Nonetheless, there is still an open opportunity for business schools in regions that have been widely neglected by the idea of geographical diversification. Just recently, some business schools have been starting to position themselves in Africa, Asia and the Middle East. Importantly, offering educational programs in these locations will require considerable adaptation of the content, mode and style of education. For example, individuals of other cultures are not so willing to engage in open discussions as those belonging to, say, the Anglo-Saxon culture.

Strategic alliances

Business schools are getting increasingly involved in strategic alliances. As noted above, such alliances aim at coping with the increasing demand for the internationalization of programs. In general, strategic alliances do not only involve an exchange of students; typically, partners set up an organizational structure that provides members of the alliance with contacts and opportunities in regions that are far away from their home country. At the same time, strategic alliances provide participants with an opportunity to enhance their international profile by taking courses in different countries and regions. Sometimes, members of strategic alliances set up dual degree programs to make their educational offer more attractive to potential participants.

Importantly, business alliances constitute a wonderful opportunity to provide participants in business schools programs with a truly international placement office. As noted above, applicants to regular programs of business schools seek to improve their international profile by taking an MBA in a country different from theirs. However, this does not necessarily mean that such applicants set aside the idea of getting back to their home country, once they get the graduation. Therefore, the placement offices of business schools have to be able to meet such demands by providing participants with a true international perspective. Since this a costly initiative, in terms of resources, skills and time, strategic alliances have an important role to play in this respect.

Concluding remarks

In this paper, we have reviewed the characteristics of the changing wider context of business schools, suggesting that transformations in such environments have brought about a change in the business model of our institutions. In doing this, we indicate that the globalization process acts as a catalyst for the driving forces of change operating in the institutional contexts of business schools, namely:

- the structure of MBA programs;
- sources of income;
- market concentration;
- profile of customers; and
- distribution channels.

To tackle such forces of change, we propose a number of measures that business school might wish to undertake. Arguably, such actions represent a proactive approach that may help business schools to anticipate changes and gain competitive advantage from the challenges and opportunities provided by such dynamic contexts.

Overall, the environment of business schools is characterized by their complexity and uncertainty. Currently, it is not possible to provide a straightforward remedy to resolve the problems caused by the ever-changing environments of business schools. On the other hand, the uncertainty is high and the threats and challenges are mutating. With that caution in mind, we would suggest that the best combination of measures to cope with such changing demands would involve:

- an entrepreneurial mindset, consisting of an open mind to anticipate as well as reacting with flexibility to the challenges posed by the driving forces of change; and
- an emphasis on diversity.

Since our contexts are increasingly varying, we need to rely on the skills of diverse faculty and administrators to cope with such demands. Furthermore, we would suggest that business schools must actively seek the idea of diversity in terms of gender, nationalities, and background of staff. Overall, we think that the suggestion for more entrepreneurship and more diversity would not necessarily require the pursuit of breadth at the expense of depth. Consistent with what we teach in our programs, in practice we must be able to manage organizations that combine breadth and depth to meet the challenges of their ever changing contexts.

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Corresponding author
Santiago Iñiguez de Onzoño can be contacted at: dean@ie.edu