



Collegiate Business Education at a Crossroads

By

**Michael A. Diamond
Senior Partner**

and

**Mark Power Robison
Managing Partner**

Academic Leadership Associates, LLC

17 March 2008

In an era of increasing scrutiny and criticism focused on management education, it can be difficult to assess the direction and impact of the trends that will shape business schools in the near future. Perhaps the best means to assess likely future directions and to provide leadership in shaping management and business education in the coming years may be found in analysis of the past and present state of business schools and the trends that challenge them now or may reshape their work in the future.

THE CURRENT STATE OF BUSINESS EDUCATION

In today's parlance business education is a mature product – the current structure of undergraduate and graduate professional programs has its roots in the late 1950's when two studies funded by major U.S. Foundations examined the then current state of business education and made recommendations which an enduring impact today. The Carnegie Foundation supported *The Education of American Businessmen: A Study of University-College Programs in Business Administration*, a study by economist Frank C. Pierson which focused on the shortcomings of the undergraduate education curriculum by highlighting “its excessive specialization, illustrating his argument with such memorable examples as those courses offered at a major Southern university business school: Principles of Baking: Bread and Rolls; Principles of Baking: Cakes and Variety Products; and Bread and Roll Production: Practical Shop Operation.”¹ In 1959, the same year as the Pierson Report was distributed, the Ford Foundation issued a report, *Higher Education for Business*, written by Robert Gordon and James Howell. This report examined issues including the nature of postwar business careers, the role of education in developing business skills, and what the broader goals of a university-based business education should be. As Howell himself later observed, the Gordon-Howell report would end up establishing “the educational paradigm that has guided the nation's business schools” to this day.²

By all quantitative standards, business education, and by implication, business schools have successfully met the needs of their students in the past half-century, as witnessed by their phenomenal growth. A recent report from AACSB International stated that:

- There are at least 8,000 business schools in the 47 countries where management education is tracked by the Global Foundation for Management Education;³
- In Asia alone there are more than 4,400 business schools, and more than 1,600 have MBA programs;
- In the U.S. the number of business schools continues to increase, reaching over 1,640 at the end of 2006;

¹ Rakesh Khurana, *From Higher Education to Hired Hands: The Social Transformation of American Business Schools and the Unfulfilled Promise of Management as a Profession*, (Princeton, NJ.: Princeton University Press, 2007) 268.

² Ibid.

³ Global Foundation for Management Education, *The Global Management Education Landscape: Shaping the Future of Business Schools*, GFME, 2007.

- The GFME estimates that there could as many as 26 million business students worldwide.⁴

Despite these successes, business schools and the education they provide to both undergraduate and graduate students have come under increasing criticism for their lack of relevance in today's economic and social marketplace. Many business leaders and business faculty complain that current business graduates are not prepared to manage, much less lead, and lack any sense of values, ethics, or professionalism. According to Rakesh Khurana, "contemporary business schools increasingly see themselves as business organizations not educational institutions." Business education, he complains, "can be understood as providing social capital, a resource that students see as something to be acquired and invested with the prospect of return to themselves, much like financial capital... An elite MBA program comes instead to resemble an exclusive fraternity or country club that confers social advantage in the labor market."⁵

Management education leaders such as Glenn Hubbard, the Dean of the Columbia University School of Business respond that "...all of our schools teach entrepreneurship and seek to train our students to apply entrepreneurial business principles to provide social benefits in environment, workforce development, education, health, and community international development..."⁶ Hubbard argues that the problem is not the lack of change but the lack of communication about advances in business education. "We have undertaken the hard and ongoing work of change. The way in which the world conducts business is always evolving, and so too are our programs of business education. Be we have not undertaken the comparatively easy task of letting the business world, the business press, and even in some cases our own alumni see how we embraced experiential learning."⁷ From this perspective, the perceived lack or relevance is not fundamental to contemporary business education and can be corrected. In response to those such as Bennis and O'Toole who have attacked the relevance of research undertaken by business school faculty, DeAngelos and Zimmerman argue that "there is no conflict – indeed a strong synergy – between competence in academic research and the ability to analyze real-world business problems."⁸

What do business schools teach, or fail to teach, that subjects them to so much criticism? With some exceptions undergraduate business programs are remarkably similar – generally 60 upper division semester units consisting of core subjects (finance, accounting, marketing, and etc.) and a major area or concentration for more in-depth study. These upper division courses follow a general education and liberal arts foundation, so the program resembles what is normally called a 2+2 program (2 years of liberal arts and 2 years of business courses). This structure, especially the grounding in the liberal arts follows directly from the critique of

⁴ Dan LeClair, "*B-Schools by the Numbers, 2008*," AACSB Deans' Conference, San Antonio, February 8, 2008.

⁵ Khurana, *From Higher Education to Hired Hands*, 350.

⁶ Glenn Hubbard, "*Why Business Education Matters*," Plenary Session Address, AACSB Deans' Conference, February 8, 2007.

⁷ Ibid.

⁸ Harry DeAngelos, Linda DeAngelos, and Jerold L. Zimmerman, "What's Really Wrong With U.S. Business Schools?" (July 2005) 17. <http://ssrn.com/abstract=766404>

business education in the Pierson report which attacked schools for “graduating students who have had but the slightest exposure to general background or basic tool subjects. The vast majority of students receiving undergraduate degrees from these in situations today have had little or no work in any of the humanities outside English, in college mathematics, in any of the sciences beyond a single one-year course, or in any of the social sciences outside economics and possibly history.”⁹

Interestingly, the criticism of undergraduate business education in 2008 is remarkably similar to the concerns raised in 1959. After broadening out their curricula’s in the 1960’s, 1970’s and 1980’s, business schools began again to add more and more specialties and increasingly stringent requirements for business credit hours, often at the expense of liberal arts and humanities courses. The liberal arts are seen as something to be pursued in the first two years of undergraduate study, before moving across the street to the business school when the student became serious about education. Valid criticisms remain. There has really been little attempt to integrate in a meaningful way liberal arts into the overall undergraduate business curriculum.

On the graduate level, the core management education degree—the MBA—is the subject of the greatest criticism. Warren Bennis and James O’Toole note “Business Schools are on the wrong track,” having adopted “a model of science that uses abstract financial and economic analysis, statistical multiple regressions and laboratory psychology, but that is less and less grounded in actual business practice.”¹⁰ Peter Drucker also criticized MBA curricula for focusing on abstraction and failing to expose students to clinical experiences that help them see and experience business practices.¹¹

Critics of graduate management education often complain that universities teach students how to get jobs, enrich their personal capital and network with their colleagues, but do little in the area of teaching students about the profession of management, the ethics needed to be an effective manager and leader, and most importantly the soft skills that often enhance judgment. Louis Lataif, the Dean of the Boston University School of Management, provided a useful summary of the criticisms leveled against both undergraduate and graduate business education in a recent article in the Financial Times:

Over my working lifetime, including three years as president of Ford at Europe, I have come to appreciate the need for future business leaders to better understand the art of business. Most business problems, be they operating or strategic, do not stem from an absence of rigorous data analysis. They result from a failure to understand the art of business and to factor it into decision-making.

There is no Ph.D. in the art of business and no formal body of research. It is much easier, therefore, for business schools to focus on the science of business – finance,

⁹ Frank Pierson, *The Education of American Businessmen: A Study of University College Programs in Business Administration* (New York: McGraw-Hill, 1959).

¹⁰ Warren G. Bennis and James O’Toole, “*How Business Schools Lost Their Way*,” Harvard Business Review, May 2005, 97.

¹¹ AACSB – International, *Management Education at Risk*. St. Louis, 2002.

accounting, operations, statistics, etc. – where they are well trained professors. Yet to develop more effective business leaders, we must find ways to impart an understanding of the art of business in combination with the science.¹²

These serious criticisms call into question the purpose and efficacy of management education at a time of immense change in the field. A wide range of trends threaten to reshape the work of business schools in the coming years.

IMPORTANT TRENDS FOR BUSINESS EDUCATION

Global threats:

- **Demographics** – The number of college-age students in the United States will decline during the next decade while the size of the same age cohort in the Middle East, Asia and Africa continues to grow and participation in higher education has tripled in the past two decades. The *New York Times* reported that “projections show that by the next year or the year after, the annual number of high school graduates in the United States will peak at about 2.9 million after a 15-year climb. The number is expected to decline until about 2015.”¹³ These demographic shifts will shape the types business opportunities in the U.S. and abroad over next generation—presenting both challenges and opportunities for business schools as they seek to prepare students for successful careers.

Demographic change will also have a direct impact on enrollments. As the growth in potential markets for students shifts to Asia, Africa, and the Middle East, business schools in North America and Europe face increasing competition for the best students. Business schools in the U.S. will see this at the undergraduate level and then at the graduate level as demographic changes drive enrollments down. This trend could be offset by increases in college age students in Asia and Africa where the demand for business education continues to grow. There are almost 1,400 institutions in China awarding business and management degrees, second only to the 1,550 in the United States. In China, the number of local institutions awarding MBA degrees expanded to its current number (100) from close to zero in 1990.¹⁴ McKinsey & Co. argues that if China retains its current pace of macroeconomic development, more than 75,000 well-trained high level executives will be needed during the next several years – some 70,000 more than are currently available.¹⁵ This represents a potential boon to business schools across the globe.

In addition to an expected decline in the number of students graduating from high school in the United States, the ethnic composition of the student cohort is changing.

¹² Louis Lataif, *Financial Times*, 9 November 2006, 15.

¹³ *New York Times*, 9 March 2008, 1.

¹⁴ GFME, *The Global Management Education Landscape*, (2007) 30.

¹⁵ *Ibid.*

The proportion of minority students is increasing and will account for about half of school enrollments within the next decade. The fastest-growing population groups in the U.S. also have the lowest levels of academic attainment, suggesting further potential for growth and the need for additional support services to promote academic success.¹⁶ Further, Young women are emerging as influential leaders in what is being called the *creative class*, and will make up 60% of college enrollment by 2013, and the majority of the workforce by 2010. A likely related emerging trend is the return of women to graduate school later in life as they balance careers, education and family.

- **Geo-political instability and terrorism** pose threat to revenues and enrollments, with concerns that future terrorist events or wars could cause severe restrictions on the availability of student visas in the United States. Concerns such as these are leading an increasing number of American universities to provide their degree programs off-shore, thereby hedging against revenue constraints due to visa availability. One example of an elite U.S. universities offering degree programs abroad include Carnegie Mellon University's Heinz School in Adelaide, Australia, which experienced immediate success in student recruitment.¹⁷ Other approaches to this issue would entail offering programs in key population centers around the world to ensure student access regardless of mobility constraints.
- **Climate change** – A December 2007 *McKinsey Quarterly* survey of global business leaders found that “60% of global executives view climate change as important to consider within their companies’ overall strategy... [and] nearly 70% see it as an important consideration for managing corporate reputation and brands.” And yet, McKinsey reports that few of these companies are “translating the importance they place on climate change into corporate action.” This study suggests that climate change will play an increasing role in business on a global scale, and that one differentiator in the future for executives may be those with the capacity to offer solutions for their companies. Climate change is likely to reshape patterns of migration and immigration, with dramatic consequences for businesses around the world as people and markets move. Similarly, numerous business opportunities will be created by concomitant needs in communities around the world facing public health crises and changes in the availability of food and clean water. These emerging concerns challenge business schools to prepare their students for leadership in uncertain times.

On an immediate level for business schools, many MBA programs have entered the international market place by flying key faculty to Asian and European locations for global MBA programs. Or, student enrolled in many of these programs fly to class monthly or sometimes even bi-weekly. Any restrictions on travel to due global warming concerns may make this model less feasible in the future.

¹⁶ National Center for Public Policy and Higher Education, *Policy Alert*, November, 2005.

¹⁷ *The Australian*, 17 March 2006.

- **Global health threats** – Like climate change, global health threats such as AIDS and avian flu may also play an increasing role in the conduct of business and the skills necessary for effective leadership in the future. Wealth creation in key regions of the world is likely to be constrained by these and other health crises, with important consequences on business opportunities and trade. Similarly, global health concerns of this nature raises criticism of the ethics of vaccine pricing in developing countries, thereby changing the ethical landscape pharmaceutical companies. These are just two examples of the many ways in which health threats on a global scale change the environment for business and may, in turn, necessitate changes in business education.

As with climate change, global health threats may also restrict the movements of faculty and students across borders inhibiting a growing trend in MBA programs.

- **Investments in education** — The competitive environment is changing rapidly, in large part due to differential investments in education. An increasing number of countries are investing heavily, with the effect of creating more universities of higher quality around the world—and more business schools that compete with American providers. The clearest example of this may be seen in China, where rapid growth in the higher education sector has nearly tripled enrollments since 1998, from 6 million to over 16 million students.¹⁸ This enrollment growth is sustained by massive investments in the creation of new universities and the dramatic expansion of existing institutions over the past 15 years. Last week, China announced a further increase in its investment in education by 45% in the coming year.¹⁹

While other countries are increasing their investment in education, the U.S. is decreasing at the state and local level. According to the AACSB, “in the U.S, state support for higher education declined from 32 % of university budgets in 2000, to 26% in 2004, and has continued to shrink since then.”²⁰ Leaders of public institutions of higher learning complain that their institutions have gone from *state supported, to state assisted, to state located*. This revenue crunch means that business schools in both public and private institutions will need more and more funds from outside traditional public revenues to maintain their growth and quality.

- **Protectionism and free trade** – Higher education is increasingly seen as a platform for multi-national competition, and may be subject to multi-national trade agreements in the coming years. The current round of World Trade Organization talks included discussions of higher education, which is likely to play a more prominent role on the agenda in future rounds.²¹ While the Bologna accords may facilitate the movement of students in Europe, protectionist trends may offset this movement by decreasing student mobility.

¹⁸ Xin-Ran Duan, “*Chinese Higher Education Enters a New Era*,” *Academe*, Nov/Dec 2003; John Daniel, Asha Kanwar, and Stamenka Uvalic-Trumbic, “*A Tectonic Shift in Global Higher Education*,” *Change*, July/August 2006

¹⁹ *South China Morning Post*, 6 March 2008, 1.

²⁰ LeClair, “*B-Schools by the Numbers*,” 2008.

²¹ *South China Morning Post*, 17 December 2005, 1.

- **U.S. Regulatory environment** – Congressional scrutiny of higher education peaked in the last congress with Howard “Buck” McKeon’s (R-CA) legislative efforts to curb tuition increases and force acceptance of transfer credit from any accredited institution.²² Although unsuccessful, these initiatives raise concerns for universities that may see increasing regulation from the federal government in the coming years, especially if crises such as the student loan fiasco in the United States continue to occur.

These global threats, as well as others, are likely to have differential effects on business education. In areas, they represent new opportunities for management education and in some cases they represent potential threats to the existing models of management education. In any event, they make it necessary for all business schools to develop capabilities to meet new and unexpected challenges and threats to well established ideas and ways of doing things.

Increasing competition:

Competition is an increasing concern for business schools, coming from the growing number of business schools, particularly with growth amongst for-profit education providers, corporate universities and other nonacademic venues for business education. These include both degree programs and non-degree training.

- **For-profit providers** — There is a significant increase in the enrollments (both undergraduate and graduate) in private, for-profit educational institutions. In 2000, the market share for private, for-profit institutions was 4.9% at the undergraduate level and 7.0% at the Master’s level. By 2006 the market share for private, for-profit institutions grew to 9.7% at the undergraduate level and 15.6% at the Master’s level. The combined market share of public and private, not-for-profit institutions declined correspondingly.²³ For example, the two institutions that conferred the most business bachelors degrees in 2006 are the University of Phoenix (6,042) and American Intercontinental University Online (3129). The expansion of private, for-profit institutions into the undergraduate and graduate business market is expected to continue, perhaps even at a faster pace. Given that these types of institutions do not have to make the substantial investment in faculty resources and scholarship that is characteristic of both public and private not-for-profit academic institutions, they may develop a competitive advantage in terms of providing low-cost quality business education. This will likely lead to these private, for-public institutions acquiring an ever increasing alumni base and greater and greater public recognition.²⁴
- **Fragmentation** — Related to this growth is the continued segmentation of the graduate business market, as evidenced by the number of new and often niche

²² *Chronicle of Higher Education*, 2 May 2003 and 5 May 2006.

²³ LeClair, “*B-Schools by the Numbers*, 2008.

²⁴ An example of the increasing profile of these providers may be seen the naming rights purchased by the Apollo Group for the football stadium in Glendale, Arizona where the 2008 Super Bowl was held. This stadium is now called the University of Phoenix Stadium.

programs offered by business schools. For example, according to the AACSB, by 2002 specialized Master's programs represented 22% of total master's enrollments. This number has continued to grow and is the result of business schools reaching out to a broader audience than the traditional "pre-experience" MBA candidates as well as the desire of more and more candidates to matriculate in programs that are shorter than the mature-two year MBA programs. Students see the opportunity cost of leaving the working force or delaying entry into the workforce while they spend an additional two years in school as getting higher and higher in today's faced paced economy. Fragmentation may lead to an increase in the number of programs within business, small and more expensive programs due to the loss of leverage, the need for more full-time faculty and the need for more adjunct faculty with very specialized knowledge.

- **International collaboration** — Whether through joint degree programs with international partners or by offering their own programs off-shore, numerous American business schools are offering their programs outside the United States. Examples include the USC Marshall School Global Executive MBA program in Shanghai, offered in partnership with Shanghai Jiao Tong University, and joint EMBA program offered by HEC in Paris, the London School of Economics and NYU, and the joint EMBA program offered by Columbia University and the London Business School.
- **International competition** — The growing ranks of high-quality business schools around the world are changing the competitive landscape in management education. The most recent *Financial Times* ranking of full-time MBA programs rates programs outside the United States very highly, 4 of the top 10 and 11 of the top 20 business schools outside the U.S. Amongst Executive MBA programs, only 2 of the top 10 are taught solely in the United States, with three more offered in partnership with one or more university partners outside the U.S.

Competitive growth has come with a cost. As the GFME notes, "We expect continuing growth in management education, increasing diversity of business degrees offered and business degree providers, and expanding cross-border provision of education. Given the limitations on quality assurance that already exists, these trends signal a risk of increasing quality variance around the globe."²⁵

Criticism of management curricula continues and expands:

- Employers often complain that newly-minted graduates' skills are too narrowly focused, that they do not have good written and oral communication skills, they lack the broad skills and abilities to be move beyond entry level positions, and they do not really understand the role of the profession to which they are entering. A recent corporate recruiters survey by the Graduate Management Admissions Council (GMAC) reported that, "Analysis of skill competencies reveals that MBAs do not demonstrate better interpersonal skills – i.e., active listening, social perceptiveness,

²⁵ GFME, [The Global Management Education Landscape](#), (2007) 34.

coordination, persuasion and negotiation, time management, and management of personnel resources -- better than their non-MBA peers, despite the fact that surveyed executives and managers rated such skills as being the most important in managerial work.”²⁶ The study goes on to note, “Although conscientiousness (i.e., dependability, attention to detail, integrity) is considered the most important competency in managerial work, it is also one of the least developed among MBAs and other business degree holders.”²⁷ Returning to the controversial article by Warren Bennis and James O’Toole, they note that “MBA programs face intense criticism for failing to impart useful skills, failing to prepare leaders, failing to install norms of ethical behavior – and even failing to lead graduates to good corporate jobs.”²⁸ Jeffrey Pfeffer and Christina Fong of Stanford University, wrote a similarly influential article in 2002 maintaining “that many business schools were plagued with three primary problems: student passivity in the learning process, a decrease in curricular relevance, and a failure to translate business knowledge into applicable skills.”²⁹ “Management school faculty often focus on academic fields such as game theory or econometrics, not on management practice, and their work may have little to do with real business problems. And as business faculty have sought ever more academic status, describing what managers actually do has tended to crowd out prescriptive work on what they should do. Critics charge that such faculty (some who may not even know or care much about business) can teach business students little or nothing about how to actually manage – in other words, to accomplish things with and through other people.”³⁰

Criticism of research:

- The relevance of research conducted in business schools has experienced high-profile in recent years in scholarly and popular journals alike. For example, Warren Bennis and Peter O’Toole have argued in the *Harvard Business Review* that “the problem is not that business schools have embraced scientific rigor but they have forsaken other forms of knowledge.” They go on to argue that to be really effective, “business schools need a diverse faculty populated with professors who, collectively, hold a variety of skills and interests that cover territory as broad and as deep as business itself.”³¹

Academic disciplines:

- Many critics of business education complain that faculty interests are too narrow and too focused on their disciplines at the expense of interdisciplinary or inter-school teaching and research. Because business school faculty generally do not engage in

²⁶ Graduate Management Admissions Council, Recruiters Survey (2007) 20.

²⁷ Ibid.

²⁸ Bennis and O’Toole, “*How Business Schools Lost Their Way*,” 96.

²⁹ Jeffrey Pfeffer, *What’s Right and Still Wrong with Business Schools*, BizEd, January/February 2007, Volume VI, Issue 1, 42.

³⁰ Richard Schmalensee, “*Where’s the “B” in B-Schools*” Business Week/Online, 27 November 2006.

³¹ Bennis and O’Toole, “*How Business Schools Lost Their Way*,” 104.

funded research they are often at odds with the funding model of other disciplines and are less likely to collaborate with faculty outside the business school.

Shortage of Faculty:

- Increasing faculty mobility and salary competition with industry make recruitment and retention increasingly difficult, particular in business, medicine and law. For business schools, this is particularly challenging in disciplines such as finance, where even elite universities cannot offer salaries that compete with Wall Street firms. Moreover, there continues to be a shortage of faculty graduating from PhD programs, as many major business schools have reduced the size of the doctoral programs. Smaller doctoral programs has led to fierce competition for leading graduates and rapidly-increasing starting salary costs for business schools.³² This trend will continue. According to the AACSB, “business doctorates declined form 1,327 in1884-5 to 1,071 in 1999-2000, or more than 19%.” The AACSB goes on to note that within five years (of their study, 2003), the U.S. shortage of business Ph.D.’s is expected to be 1,142; and in 10 years, the shortage will reach 2,419.³³ The ability of business schools to attract and retain quality faculty is certainly at risk and has driven up the faculty salaries to points that are almost economically unsustainable. The imbalance between supply and demand and consequent increase in costs will continue.

Criticism of business ethics:

Some might argue that the spate of problems besetting the management and accounting professions in recent years is an aberration, not a systemic problem—fueled by speculation in the capital markets and poor oversight by regulators and the management and business professions themselves. However, recent events such as the Enron fiasco, excessive compensation for CEOs of failing companies, and back-dating stock options has to be seen as a wake-up call for business and accounting educators. While increased attention to ethics in the classroom is being called for, but of even more importance is the need to prepare business students for a more complex world than their faculty encountered at the time of their graduation. This is not solely a U.S. problem. Issues of corruption are prevalent in the Chinese economy, throughout Africa and in other parts of the world. Many in society are looking at the institutions corrupt CEOs and CFOs attended and are pointing their fingers at these institutions for their failures to provide an education based on ethics and values.

Many critics argue that what is needed is a new educational approach that gives students the intellectual and communication skills and analytic capabilities to make wise decisions in the face of change and helps them to continue their professional development throughout their careers. Parker Palmer writing in *Change* magazine about ‘A New Professional: The Aims of Education Revisited’ concludes by noting, “Higher education needs to educate people in every field who have ethical autonomy and the courage to act upon it – who possess

³² AACSB – International, *Management Education at Risk*, 2002.

³³ AACSB – International, *Sustaining Scholarship in Business Schools*. St. Louis, 2003.

knowledge, skill and the highest values of their vocations.”³⁴ Pfeffer complains that “business schools still use as one measure of their success the size of their graduates’ salaries. A better measure of success, however, may be how well they build each student’s character and sense of accomplishment.”³⁵ This trend toward corporate accountability and educational accountability will continue to push on business schools to broaden their curricula beyond traditional quantitative skills now so prevalent in the current degree requirements. This represents both an opportunity and a threat to business education and business educators.

³⁴ Parker J, Palmer, “A New Professional: *The Aims of Education Revisited*,” Change November/December (2007).

³⁵ Pfeffer, *What’s Right and Still Wrong with Business Schools*, 42.