Cornering the
Amid a host of disruptive forces affecting higher education, business schools must fundamentally change the way they operate if they’re to shape their own future. And, many believe, they’d better do it fast.

BY TRICIA BISOUX

Imagine presenting the following case study to a class of MBAs: A service-based institution faces dwindling sources of funding, an onslaught of new competitors, and a range of stakeholders who are demanding a wider range of options, easier access to services, and greater value for their money. To stay competitive and continue to grow, the institution must adopt new strategies and radically revise the way it operates. And it must do so in ways that align with not only its own goals, but those of its change-averse parent organization.

The class must answer the crucial question: How?

In April, Len Jessup and Angus Laing presented a very similar real-life case study not to a class of MBAs, but to a gathering of administrators at AACSB International’s annual conference in Chicago. The topic of their presentation: What new financial models will help business schools sustain their missions in the years to come? The time-honored strategies that brought business schools to where they are today will not take them much farther, say Jessup, dean of the University of Arizona’s Eller College of Management in Tucson, and Laing, dean of Loughborough University’s School of Business and Economics in Leicestershire, United Kingdom. “We can no longer continue to try to squeeze efficiencies from existing models,” says Laing. “We’ve got to change our models.”

Business schools need to act quickly and strategically to overcome budget shortfalls and retain their competitive edge, these two deans emphasize. Based on their experiences and conversations with colleagues, Jessup and Laing have their own recommendations for how business schools can position themselves to help shape their own futures.
“The business model for business schools has changed dramati-
cally,” says Jessup. “And it’s not going back.”

First, Differentiate
As more schools raise tuition rates to make up for reductions in
government support, students are expanding their college searches
farther field in order to find pro-
grams that give them
the most value for their
money. That makes
it more important
than ever for business
schools to differentiate
their offerings from a
growing pool of com-
peting programs.
That is especially
ture for universities in
the U.K., says Laing,
due largely to the 2010
Browne Review of the
funding of Britain’s
higher education insti-
tutions. In response
to the report’s recom-
mendations, the Brit-
ish government raised
the tuition cap that
the country’s higher
education institutions
could charge annually,
from £3,290 to £9,000.
By the 2014–2015
academic year, most
universities in England will have
raised their undergraduate tuition
rates to the £9,000 limit to offset
the withdrawal of state funds. The
government also withdrew its fund-
ing of business education, as well
as of all subjects other than STEM
disciplines (science, technology,
engineering, and math). Conse-
sequently, undergraduate business
students now must pay the entire
cost of their educations.
Loughborough already has
adopted the £9,000 tuition rate,
which covers the cost of deliver-
ing the business school’s programs
as well as a subsidy it pays to the
university to support higher-cost
disciplines. But higher rates make
students in the U.K. much more
willing to consider less expensive
business schools in other countries.
Such increased student mobil-
ity will make it more difficult for
schools to differentiate themselves
based on the cost of their pro-
grams. “The new tuition cap has
opened up the prospect of far more
competition from English-language
business schools in mainland
Europe,” says Laing.

Going forward, business schools
will have to find other ways to set
themselves apart from competitors,
he adds. For instance, a yearlong
undergraduate internship program
helps distinguish Loughborough’s
business program from those at
other schools. Because relatively
few other programs offer similar
opportunities, says Laing, the com-
pulsory internship helps Lough-
borough continue to recruit
strong students in spite of
greater student mobility.
“You must be able to
answer the key question that
students and parents will
ask: What does this degree
offer that we can’t find else-
where?” says Laing.

Grow Your Profit Centers
In the U.S., many business
schools at publicly funded uni-
versities are finding that they’ll
need to generate more revenue
to make up for dwindling sup-
port from state governments.
For that reason, business
schools will need to do more
to bolster their best profit cen-
ters, Jessup says.
That was Jessup’s aim
when he was appointed dean
at the Eller College in May
2011. At the time, the uni-
versity president gave him
two directives: First, make
the business school self-sustaining.
Second, do the same for the uni-
versity as a whole. Enrollment at
the college has been on the rise—
increasing nearly 20 percent since
2006. At the same time, state sup-
port for the university in 2013 had
dropped close to 40 percent from
its peak in 2008, while university
tuition doubled. To raise more
RETHINKING THE MODEL... BY COLLABORATING

Three business schools recently announced a new approach to global undergraduate business education. The University of Southern California (USC) in Los Angeles, the Hong Kong University of Science and Technology (HKUST), and Bocconi University in Italy have launched the World Bachelor in Business (WBB) program. In the new program, undergraduate business students will live and study on three continents and earn degrees from all three universities. The first cohort of 45 students will begin the WBB program in September.

WBB students will spend the first year of the program in Los Angeles, their second year in Hong Kong, and their third year in Milan. In the fourth year, they can study at the partner university of their choice. Classroom instruction will be in English on all three campuses, but students will have opportunities to learn Chinese, Italian, and another European language. The courses offered on all three campuses meet the educational requirements of all three schools.

Because of the logistics of transferring credits from campus to campus, students will follow a fairly regimented core curriculum. A faculty director at each school will facilitate communication among the campuses and handle any issues that arise. In addition, each school has designed dedicated courses specifically for WBB students to introduce them to issues important to global business. For instance, students will take technology-enabled courses co-taught by faculty on all three campuses and work on teams with their counterparts on the other two campuses.

Each year, students will pay the tuition rate of the school where they are studying. During the fourth year, when students choose where to study, they will pay a specially calculated tuition rate that the partners will split, based on each school’s financial and regulatory situation. “We had many discussions on how to structure the tuition—some that went up to the top levels of our universities,” says John Matsusaka, professor of finance and Marshall’s vice dean for faculty and academic affairs. “It’s complicated for us, but it will be simple for students.”

At the time of this article, the partner schools already had received 1,200 applications for 45 spots through Marshall and Bocconi, and they still were waiting to close the application period at HKUST. That indicates a high level of interest among students in receiving a transcontinental undergraduate business education, says Matsusaka.

“We were trying to anticipate where we thought higher education was headed,” he says. “As the world becomes increasingly global, students will need to do more than visit a country for just one week or semester to develop a global mindset. They need to live there.”

Adopt RCM

Recently, some deans have raised the possibility of separating their business schools from the larger university—essentially going private. But what would privatization mean for a business school? For many schools, says Jessup, the drawbacks outweigh the benefits.

While privatization offers a business school financial and strategic autonomy, it also makes it
responsible for the costs of building maintenance, security, and employee health insurance and retirement plans. “Once deans add up the total cost of ownership, many realize that business schools reap significant benefits from being part of a university campus,” says Jessup.

Rather than going private, Jessup strongly advocates that public universities adopt responsibility-centered management, or RCM, the financial model that the University of Arizona is in the process of implementing. In the U.S., the RCM model was pioneered by schools such as Indiana University and the University of Michigan in the mid-1970s, when they converted from a centralized administration overseeing the entire university to a decentralized system that allowed individual departments to retain control over their own tuition dollars. In return, each department pays a tax back to the university to support central services—the taxes from financially stronger programs subsidize less lucrative but strategically significant disciplines. For a business school, that tax often ranges from 30 percent to 50 percent of its tuition revenues.

Under RCM, a business school can really spread its wings, says Jessup. But even though more large public universities are adopting some form of RCM, Jessup realizes that not all university presidents are ready to jump on the RCM bandwagon. Some are concerned that their universities will become more focused on generating revenue than on providing education as a public good. Others fear that less profitable departments might struggle—or even face closure.

To persuade university leaders of the benefits of RCM, business school deans can fall back on their training in organizational behavior and change management, says Jessup. “There’s strength in numbers. If you’re arguing for RCM or a similar large-scale shift in mindset, bring other key decision makers—other deans—to the table,” he says. “Have benchmarking data to show how and why others have done it. Most important, help university leaders understand that the school might not survive unless it shifts to some form of an RCM model.”

He points to Indiana University as one example deans can use to make their case. For instance, although IU’s music school cannot sustain itself on its own tuition dollars, it’s still ranked No. 3 in the nation. In fact, IU boasts 90 programs ranked in the top 25 in the country because RCM allows larger profit centers such as the business and law schools to remain entrepreneurial and generate more revenue. Those programs not only sustain themselves but also support

RETHINKING THE MODEL...
BY REPOSITIONING

In September, Audencia Nantes School of Management in France will relaunch its one-year full-time MBA as an MBA in Responsible Management. The new program—which is still the school’s general MBA program, not a specialized offering—will better differentiate the school from competitors, says Rhona Johnsen, Audencia’s director of MBA programs.

“We were finding that students tended to view all MBAs as the same. They would ask us, ‘What do you do differently?’ That question pushed us to think more deeply about what our strengths and competencies are,” Johnsen says.

The school’s repositioning was finalized after a two-year analysis of the global MBA market. “We found that business schools were increasingly launching specialized master’s programs and differentiating their programs based on their expertise,” says Johnsen. “The classical model of the MBA appeared to be changing.”

The school chose to focus on responsible management after it realized how much of its activity already was related to the topic, from its corporate consultancy projects and faculty research to its Research Institute for Global Responsibility and Entrepreneurship. The repositioned MBA will be further supported by student exchanges with the University of Exeter’s One Planet MBA, based in the U.K., which is “a flagship example of how an MBA can relate more to responsible management,” says Johnsen.

As part of this transition, Audencia’s MBA curriculum has undergone a significant overhaul, now incorporating courses such as “Responsible Finance and Accounting” and “Sustainable Operations Management.” Rather than assign professors to teach certain courses, the school invited them to submit ideas for courses they’d like to teach that would support the new regime. That flexibility “has opened up a range of creative possibilities for our faculty,” says Johnsen.

Most important, says Johnsen, the school now has an answer for students who ask how Audencia’s program differs from others in the market. The candidates who have applied so far, she says, “are already convinced that ours is the type of MBA they want.”
many important but less lucrative programs in the arts and sciences.

“What better argument that universities can thrive under RCM?” says Jessup. “The model isn’t just good for the business school—it’s good for everyone.”

Learn from Disruptors

There’s no question that online education has transformed how courses are delivered. (See “Technology, Education, and the Developing World” on page 30.) And it’s still unclear whether the massive open online course, or MOOC, is a friend, foe, or farce to higher education. (See “What Makes a MOOC?” on page 26.) But business schools should not ignore for-profits like Strayer University or MOOC platforms such as Coursera and edX, says Laing. Just consider what happened to Kodak after its leaders ignored the implications of digital photography.

Laing points out that the same trends affecting business schools—decreased funding and higher costs—are driving many students to seek out cost-effective educational alternatives. Case in point is the success of U.K.-based distance learning provider the Open University and Open University Business School, where Laing served as a director of research and marketing professor for four years. “Since the OU has developed a successful MBA program, it’s aggressively targeting the undergraduate market, offering students the ability to study part-time at lower cost,” Laing says.

At the same time, for-profit online education providers like London-based BPP University College and U.S.-based University of Phoenix, both owned by the Apollo Group, can provide students faster time-to-completion for degrees and certifications. “For-profits might not give students the ‘life-changing experiences’ of traditional higher education,” says Laing, “but they do offer cost-conscious students a very sensible approach.”

Traditional business schools will not be able to compete with for-profits on price, or even on the benefits of traditional delivery, if that’s not what students are looking for. Instead, Laing advises business schools to learn more about how for-profits and MOOCs do what they do. It’s possible that their underlying models offer solutions for traditional higher ed.

With that in mind, 20 universities in the U.K. recently joined FutureLearn, a consortium led by the Open University. Through FutureLearn, the universities will examine models such as Coursera, edX, and Udacity, and then develop a similar platform for MOOC delivery.

“It will be difficult to ever charge for MOOC content,” Laing admits. As example, he refers to the difficulty that newspaper publishers have had trying to persuade people to pay for online content that was previously offered for free. Even so, he can imagine a day when traditional business schools use MOOCs to augment their face-to-face courses—when, for instance, professors might ask students to view a MOOC developed at another school and then use its content as a springboard for class discussion.

Where MOOCs are concerned, says Laing, “it’s arguably easier to charge for the learning support, the exams, the credits, and the school brand. What matters is the quality of the interactions in the classroom—that’s what students are buying.”
Transform the University
Jessup and Laing agree that business schools can play a critical role in transforming their universities into economic powerhouses. “University presidents and provosts typically come from the arts and sciences, not business—the notion of profit centers and cost centers and how to manage them is often foreign to them,” says Jessup. “Business schools at public universities are in a position to help their universities make the shift to a performance-based budget allocation process.”

Jessup makes sure that the Eller College plays this role for the University of Arizona. Two years ago, UA faculty and centers spent about US$625 million annually on grant-funded scientific research, but its commercialization activities were falling short of potential. Since then, the Eller College has helped UA restructure its activities around technology transfer and commercialization, largely through a new initiative called Tech Launch Arizona. Tightly linked with Eller’s McGuire Center for Entrepreneurship, Tech Launch Arizona helps faculty and startups develop and commercialize their best inventions, which improves the financial health not only of the university, but of the region as a whole.

Persuade Policymakers
Finally, if business schools want to secure their futures, they must do more to promote the strategic value of their activities to lawmakers, says Laing. “Government focuses heavily on the economic importance of STEM—science, technology, engineering, and math. We need to show officials that it should be STEM², with the second ‘M’ standing for management,” he says. “As governments struggle to promote their growth and innovation agendas, business schools have not articulated what we can contribute as much as we should.”

To that end, the Association of Business Schools in the U.K. has formed an innovation task force that aims to reach out to policymakers and promote business schools as drivers of regional and national economic growth. More important, the task force wants to convince policymakers to provide more funding support for business school activities that support entrepreneurship and urban regeneration initiatives.

“There’s huge opportunity in this area,” says Laing. “We need to think carefully about the messages we send to government officials, so they view business schools as strategically important, in the same way they view medicine and engineering as strategically important. We need to convince them to provide incentives to encourage business schools to act more entrepreneurially.”

What Are Business Schools For?
Jessup and Laing stress that it’s time for business schools to do some serious soul-searching—to ask the crucial question: What are business schools for? If their purpose is to educate future leaders, drive economic growth, promote innovation, and support their ongoing missions, then they must adopt the best strategies and financial models to support those goals for the long term.

“At best, 20 percent of our faculty think deeply about what the business school does as a whole, rather than focus only on their own narrow expertise,” says Laing. “Very few ask, ‘What’s the world like? How is it changing? How do I need to operate?’ A culture of conservatism holds us back. We’re not as entrepreneurial as we should be.”

By outlining the critical issues that business schools face—and highlighting possible solutions—these two deans hope to trigger even more vigorous discussion and action among their colleagues. But it’s not all bad news, they say. The market may be tumultuous, but Laing and Jessup believe it’s a great time for business education. They see tremendous opportunities in the years ahead—but only for those business schools willing to take action today.