America's graduate management programs are trying to be all things to all constituencies. Which means they're serving nobody well — least of all American business.

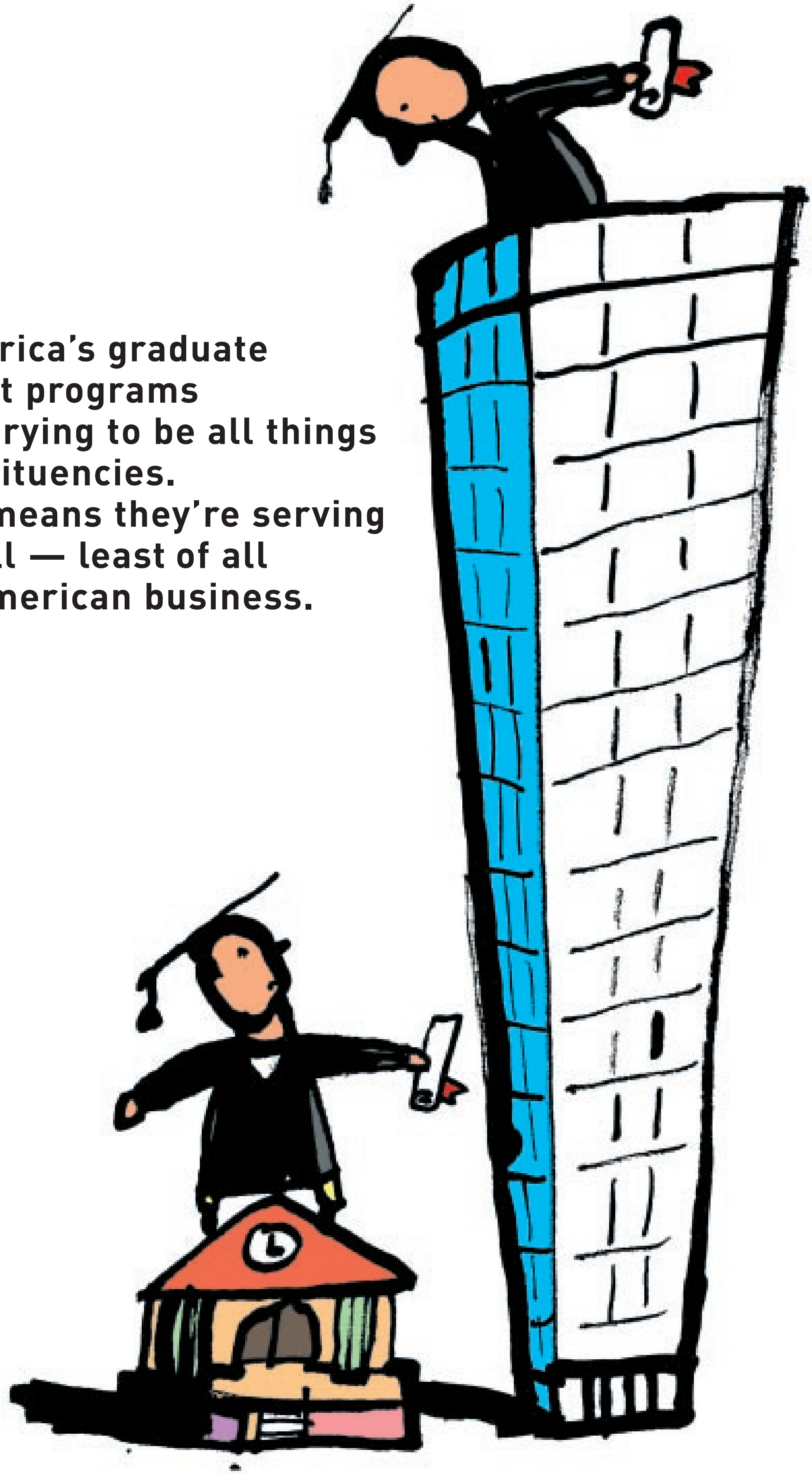

Illustration by Pascal Lemaître

Business Schools: Fighting the Enemy Within

by Paul O. Gaddis

Business is booming at American business schools. Currently, more than 80,000 MBAs are earned each year from university-based management programs, up from 65,000 in 1983 and 5,000 in 1965. The number of applications continues to rise, with more and more students applying from outside the United States. The schools are also marketing themselves aggressively to U.S. corporations, which today spend more than $60 billion a year on training — and, according to International Data Corporation (IDC), are projected to spend $6 billion annually on Internet-based training by 2002. There seems no limit to the possibilities of profits in business education.

Yet university business schools, devoted to management scholarship and preparing future business leaders, seem to be missing significant competitive lessons from the very corporations they serve. In so doing, U.S. business schools may be jeopardizing their otherwise prosperous futures. In May, Robert Hamada, dean of the University of Chicago Graduate School of Business, bluntly

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declared to *USA Today*, "The [MBA] industry is overbuilt," adding that new approaches to corporate training — both e-learning and expansion of in-house programs — could "wipe out" many of the 700 programs that issue about 100,000 MBA degrees each year.

Not long ago American corporations with portfolios of diversified businesses operated with a double standard — demanding excellence only from those business units considered to be the firm's real businesses, while tolerating chronically mediocre performance in their other divisions. The weaker ones were protected with flimsy rationalizations: "This weak division at least covers overhead costs" or "that weak division provides a temporary spot for good engineers before they're reassigned." But as the competitive environment grew less forgiving in the 1980s, this bad management habit became untenable.

The chief competitive threat diversified corporations faced was the greyhound, an effective, sleek, swift business entity designed and built to develop and sell a highly customer-defined product or service. As corporations realized that every one of their operations would in time compete head-on with one or more greyhounds, they began to shed or shore up unprofitable businesses, rally around core competencies, and strive for uniformly strong performance.

The new governing principle for large, diversified firms was articulated by the General Electric Company's chairman and CEO, Jack Welch, when he mandated in the early 1980s that "we will operate each and every business unit as if it were our only business." He meant that even a firm of GE's remarkable breadth would operate only those businesses that could be clear leaders in serving their own customers within their own markets.

Through the 1990s, American corporations large and small have continued to follow Mr. Welch's management maxims. But it seems business schools have failed to heed this advice.

The Ordained Program Doctrine

Founded in 1881, The Wharton School of the University of Pennsylvania was the first business school in the U.S., followed at the turn of the last century by the University of Chicago Graduate School of Business, the Amos Tuck School of Business Administration at Dartmouth College, and Harvard Business School. Business schools at Stanford and several state-supported schools, including Ohio and Virginia, emerged by 1925.

Through World War II, business schools struggled with forces pushing for academic integrity (intellectual content in courses) versus those advocating the addition of vocational subjects, such as secretarial science, personnel administration, and insurance marketing. Whereas the former required selective admissions, the latter called for admitting most students who applied.

By 1960 the vocational supporters were clearly winning, although business schools' obsession with subjects like accounting, salesmanship, and production were still being ridiculed by the other schools on university campuses. A turning point came when two national studies of business education, sponsored by the Ford Foundation and the Carnegie Corporation of New York respectively, recommended that business schools reduce the number of courses offered (particularly vocational ones) and reposition the business curriculum as the study of the art and science of management decision-making, with a new emphasis on quantitative and statistical methods. Schools generally embraced these commissions' tough recommendations and drastically remodeled their curricula to elevate the academic quality of business studies.

Today, American management schools face a new quality crisis — and a competitive crossroads similar to what diversified corporations dealt with in the 1980s. Many schools have become a collection of diverse businesses, a panoply of individual professional programs constructed, in each instance, for a different customer base using different resources. This stems from an implicit management principle — "the ordained program doctrine" — that contrasts sharply with the goal of across-the-board excellence that now guides diversified companies.

Although the ordained program doctrine is never cited, it is powerful and pervasive. If made explicit it might be expressed this way: "Our real raison d'être is embodied in one of our programs; it is a selected,

Exhibit 1: **Nontraditional Providers of Business Education: a Selection**

Organization	Investors/Sponsors	Business Education Offerings
Capella University www.capellauniversity.edu	Founded by Harvard Law grad Steve Shank. Investment from Forstmann Little & Co.	For-profit corporate training and continuing education. MBAs and PhDs. For corporations (E2B) and individuals (E2C).
Click2learn.com Inc. www.click2learn.com	Investors include: Intel, Microsoft, Paul Allen. Alliance with NYUonline.	Internet business course design. E2B and E2C.
Corpedia LLC www.corpedia.com	Privately held. Founded by Alexander Brigham, former partner at Clayton, Dubilier & Rice.	Management courses featuring brand-name scholars like Peter Drucker and Warren Bennis. E2B and E2C.
Harcourt Learning Direct www.harcourt-learning.com	Division of Harcourt Inc., a wholly owned subsidiary of Harcourt General.	Proprietary university offering degrees up to master's level. E2B and E2C.
KaplanCollege.com www.kaplancollege.com	Division of Kaplan Inc., wholly owned by The Washington Post Company.	500 courses online in 9 fields. Includes general business and management programs. E2B and E2C.
Jones International University www.jonesinternational.edu	Private investors. Faculty drawn from prestigious schools.	First fully accredited online university. Includes corporate programs and MBAs. E2B and E2C.
Morningside Ventures Inc. www.msventures.com	Columbia University	For-profit spinoff selling Columbia's educational content. E2B and E2C.
NYUonline Inc. www.nyuonline.com	New York University	For-profit spinoff offering NYU courses online. E2B and E2C.
Pensare Inc. www.pensare.com	Alliances with Harvard, Wharton, and Fuqua business schools.	Offers courseware developed from partners' content. E2B only.
Unext.com www.unext.com	Unext.com's Cardean University has alliances with Stanford, Carnegie Mellon, University of Chicago, London School of Economics, and Columbia.	Provider of business course materials and lecture videos featuring leading-name instructors. E2B and E2C.

ordained program that fits our collective values; and we will devote all our enthusiasm and our resourcefulness toward attaining excellence in this program. We will also conduct other programs when they serve some of our secondary purposes, or at the behest of some definable constituency or clientele, but we will provide for these other programs with only marginal resources and accept mediocre standards." As long as these ordained programs shine, schools tolerate lower standards among the rest of their programs — the "also-rans."

Stealth Competitors

At the same time, traditional university-based management schools are facing their own threat from focused and innovative greyhounds designed to compete directly with every type of scholarly and practitioner-oriented business education program. IDC estimates the e-learning market (including public Internet-based and private intranet-based courses) will grow from $4 billion in 1999 to $15 billion worldwide by the end of 2002. Targeting corporations and individual consumers, greyhounds in

E-learning has a dark side: Business schools are experiencing an outward migration of value. The time for corrective action is now.

the business education segment are a rapidly expanding melange of new non-university–based enterprises.

E-learning startup Corpedia LLC, for example, intends to compete with the leading schools to deliver programs via the Net to businesses and consumers; it has enlisted the ultimate brand-name management scholar, Peter Drucker, to create a 30-hour series of Internet-based teaching modules. Harcourt Learning Direct, a subsidiary of Harcourt General (which owns the publisher Harcourt Brace, among other ventures), is a full-fledged proprietary university online, with a provost and deans, offering degrees up to the master's level. (See Exhibit 1.)

To be sure, nearly every top-tier management school has entered some sort of strategic alliance with one or more greyhound. Click2learn.com Inc., backed by the Intel Corporation and the Microsoft Corporation, has formed an alliance with NYUonline Inc., a privately held spinoff of New York University. Pensare Inc., an online learning service provider funded by Silicon Valley investors, has entered into a strategic alliance with the Harvard Business School, Wharton, and The Fuqua School of Business at Duke University, and will create and distribute MBA courses for corporate clients using content from these schools.

Traditional business schools are also launching their own e-education initiatives. Morningside Ventures Inc., a for-profit online learning company founded and funded by Columbia University, will tap all of Columbia's academic resources — the arts, law, sciences, medicine, and business — to create and sell online courses.

Value Migration

There is a dark side to all this opportunity, however. In fact, one can argue that the most tangible warning that traditional business schools are in a subtle decline is the large number of startups and nontraditional players in the takeoff, planning, or growth phases. The intense competition that established business schools are facing to retain their most cherished customer segments may be happening, in part, because the old schools are not as responsive to customer needs as emerging competitors are — and have not fully recognized their vulnerability.

When an enterprise is slow to respond to change or fails to perceive weaknesses exposed by changing dynamics in the marketplace, it is referred to as a strategic failure.

Even if it recognizes the threat, it may not recognize its specific limitations or signs of adversity in a changing environment. Indeed, management professors and consultants have long studied the difficulty executives have seeing and then addressing performance problems when they first develop, because problems aren't exposed early enough by quantitative measurement systems.

Management author and Mercer Consulting Group vice president Adrian Slywotsky's seminal work on value migration, for example, postulates that organizations experience a substantial erosion of value, or what he calls an outward migration of value, long before it shows up in accounting reports or other performance measures. When problems become visible, it's usually too late to pursue the most effective remedy. An obvious parallel is found in the detection of human diseases — think of cancerous tumors, which usually are best treated well before noticeable symptoms appear.

Management guru Igor Ansoff observed years ago that executives must have the capacity and intuition to pick up on the weak signals. These are the subtle and elusive warning signs in the business environment that suggest, early in a market transition, that an organization is vulnerable to value migration. These, and comparable management theories, strongly imply that business schools need to take corrective action now, before enrollments or other contributors to school prosperity show decline.

The Ordained and the Others

Having evolved from institutions that, 40 years ago, adopted vigorous programs to augment the intellectual integrity of their courses, the typical management school in 2000 fulfills a variety of academic roles. Research and scholarly publication is one distinct activity. A second is the cultivation of scholars through doctoral programs. A third is the education of young, aspiring executives who earn Master of Science and Master of Business Administration degrees. Then there's executive education — programs for the ongoing growth of corporate managers in advanced phases of their careers. Some schools offer undergraduate degrees in business subjects. A number of universities now offer specialized programs for groups of professionals such as business degree programs customized for physicians. Management schools today also provide a home base for noted scholar–consultants who have active outside consulting practices.

The resources required to produce these proliferating programs are different, though some resources may be applicable to multiple programs. Likewise, the customers for each program have very different needs. But it takes an equal commitment to each and every program — and each program's clients — to achieve across-the-board excellence. The problem is, most schools neither support all their offerings equally nor recognize the diverse needs of a broad customer base, largely because of the pervasive influence of the ordained program doctrine.

For example, certain schools still view themselves, simplistically, as research institutions; their raison d'être is to do research, generate new ideas, and develop scholars. But these schools often conduct second-rate executive education programs, defended by school administrators with rationalizations such as "at least executive education generates travel funds for research faculty, attracts donors of unrestricted gifts, and buys respect from trustees."

Although they acknowledge the situation is undesirable, some research schools continue to operate inferior undergraduate business degree programs for practical reasons. For example, state legislatures won't provide a nickel of funding for graduate management programs unless the school has a large undergraduate business program.

Then there are the management schools that view themselves as teaching institutions. They believe they exist to augment the professional capabilities of management practitioners. But these schools often mount unexceptional research programs merely to show there's ongoing research activity (and the academic prestige that goes with it), so that they can attract better entry-level faculty.

Consider the consequences for the research-inclined institutions that treat their MBA programs as secondary. Many of these schools provide their doctoral candidates with an intense indoctrination that will help them build the intellectual values they need to succeed in a scholarly career. Meanwhile, the same schools make little or no attempt to imbue MBA candidates with the attributes of temperament and character they will need to practice management successfully. As a result, these schools award MBA degrees to students whose prospects for surviving, let alone excelling, as managers in the real corporate world are low, which further erodes the value of an MBA degree.

Research programs at nonresearch-oriented schools clearly suffer, too. Richard R. West, writing 10 years ago as dean of New York University's graduate school of business, applied the stinging terms "fuzzy, irrelevant, and pretentious" to management school research. Yet, in recent years, the professoriate has been building ever-higher fortress walls against the unrelenting criticism aimed at ivory tower management research. Continuing disparagement of the overall quality of business research is a direct reaction to "teaching" schools that don't fully support their research programs. The large and thoroughly mediocre output of such programs does much to weaken the general credibility of U.S. business schools.

indiscriminately between different programs, in the hope of achieving inter-unit synergies. Customized class sessions must be designed to meet the unique demands of each program. A current brochure from an executive program offered by the Stanford Graduate School of Business makes the point that it offers its own core courses. Unfortunately, this practice is far from universal.

• **Don't count on inter-unit synergy.** Currently, business school faculties and administrators believe they can move their best people or people with selected skills effectively across multiple program lines. Often that means using proven talent from the ordained program to support other programs. In diversified corporations, transferring resources among units is known as inter-unit synergy. But consultants who have studied inter-unit synergy know its efficacy is almost always overestimated. Inter-unit synergy works best, if it works at all, when the uniform excellence standard is applied. Again, GE supplies the example; all of its units are confirmed leaders in their own markets, and at the same time it is a recognized leader in deploying talent across divisional lines.

• **Faculty standards must fit the program.** It will no longer be feasible to apply the ordained program's recruitment, promotion, recognition, and compensation practices to other programs. This requires that institutions set multiple faculty management standards — one distinct set of standards of excellence for each program. For instance, higher compensation levels to reward outstanding performance in executive education classrooms shouldn't penalize excellent publishing scholars who are not comfortable in these classrooms.

• **Assigning teachers must be treated as an art.** Today, this administrative process is more of an ad hoc exercise. But the idea of utility infielders who can perform within limits in any and all programs, underpaid and underrecognized, will become unacceptable. Exceptionally qualified faculty who can contribute brilliantly to any and all programs is a nice idea, but such individuals are so rare that this is not practical. Faculty may be assigned to more than one program, but it should be with great care. Capable research-oriented faculty should not be forced into the executive classroom. Nor should gifted instructors be required to divert their attention from the executive classroom to undersupported research programs.

• **Consumers must be the guides to excellence.** Every dean must understand the power of consumer choice. Deans must turn the value chain around, putting consumers at the head of the chain, and develop substantially more empathy for customers than they have today.

Uniform Program Excellence

These problems will not be solved until all business schools require excellence in all the programs they offer. Traditional management schools must now embrace the incontrovertible wisdom in the principle articulated by Mr. Welch: Conduct each and every program as if it were your only one. If a program can't measure up, it must be shut down. Under the new standard of uniform individual program excellence, it will be more difficult for school administrators to operate also-ran educational programs. To be sure, performance in academe is measured along dimensions different from those in the business world, but performance in either milieu shares one essential element: providing superior value to customers.

When schools gain a deeper understanding of how customer needs are changing and of the intensity of competition, this new set of maxims will guide their operations more effectively:

• **Every program must stand on its own merits.** Administrators should move on multiple fronts to make sure all programs meet appropriate standards. This evaluation must be based on each program's service to its direct clients, and the institution's ability to meet high standards. No program should be supported because it happens to help another one. The prevailing practice of subsidizing some programs with revenues from others must be reexamined. Every dean needs the prerogative to allocate resources among programs; however, moving resources from nonordained programs only to ordained ones is pernicious in the long run, because inferior programs won't improve and the institution will move even farther away from the goal of uniform excellence.

• **Teaching tools must be customized.** Courses, lectures, and teaching materials can no longer be shuttled

This means gaining insights into all the options business school customers can enjoy today.

• **Lifelong learning must translate into lifetime revenues.** Strategies to extend the post-sale customer relationship are proliferating in industry. Universities have always done this through alumni associations and other means, but the advent of e-education makes it even more important for schools to find creative ways to retain customers. For example, professors at the University of Virginia's Darden School of Business have been working on a career-long curriculum, in which graduates would resume their education for several months — 10 years after receiving their MBAs — to focus on career development and strategic planning. A decade later, they return again to work on leadership skills.

• **Schools must employ strategic hacking.** This practice — or, as it is known in corporate circles, destroying your own business — is another defensive measure for school administrators. Here the weaker programs are singled out as candidates for cannibalization and are figuratively replaced with new programs designed to serve existing clients more effectively. This is useful even if it does nothing more than help administrators understand the deficiencies of their second-rate programs.

• **External stakeholders must be proactively managed.** Schools and their deans feel beholden to outside stakeholders who strongly influence and sometimes determine their decisions, whether they are best for the school or not. For example, it is well known that affluent donors, at times, persistently urge new academic programs that are dear to them; powerful legislators likewise endorse their favorite programs; while trustees insist on support for their programs. Unfortunately, programs imposed by any one of these constituents frequently are incompatible with the core capabilities or value propositions of the school, and are also likely to become also-rans. It therefore becomes incumbent upon administrators to inform and educate external groups about the hazards of imposing their preferences too aggressively.

Protecting a National Asset

It is not clear that many U.S. schools can continue to conduct diversified programs and survive in the long term, even if they strive for a uniform standard of excellence. With the e-education market spawning more and more competitors offering specialized and customized products and programs, established business schools will have to respond in kind.

Some say the most prestigious and wealthiest schools need not fear the greyhounds because of their reputations, deep pockets, and superior resources. This is not true. All schools are at risk.

What is clear is that whatever happens in the education marketplace, business school administrators must alter their management strategies and reassess institutional attitudes to preserve the core values and high quality of American business education. Above all, they must uphold the intellectual rigor and the challenges that make the business school worthy of university affiliation. U.S. graduate management schools are unique and esteemed institutions within the international educational establishment, as is demonstrated by the remarkable number of students from every nation who seek admission to these schools every year. University-based business schools are a major national asset for the United States, and for the world, that is well worth protecting. +

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