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# **The Changing Business Model of B-Schools**

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# The Changing Business Model of B-Schools

## Abstract

**Purpose:** This article argues 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:** The article reviews the position of those that hold a traditionalist view of the business model of business school and comment on the extent to which such model applies to the ever changing conditions featured by the environment of institutions of higher learning.

**Findings:** The present 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 implement in order to cope with changes occurring in their wider environments.

**Practical Implications:** In addition to structural measures, the paper poses a number of specific actions that business schools may implement to maintain and/or gain competitive advantage.

Nowadays, administrators and top officers of universities and business schools engage in a debate on the drivers of the ups and downs of 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 such process of change does transcend the notion of a new business cycle to result in a different business model for business schools. In the present article, we examine such 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 such framework of structural measures, we propose a number of specific actions that may produce a good fit of business schools in 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, the *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 U.S. MBA programs reported more recruiters coming to campuses (Holtzman, 2006). Yet, the demand for the Graduate Management Admissions Test (GMAT) exam is increasing, too. The declining trend of the last four years is shifting now, as shown by the increasing number of prospective candidates attending MBA fairs.

In the past, business schools experienced ups and downs in their demand for 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 address differently the increasing demand placed on their programs by students established in other countries and regions. Some business schools implement 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 *Instituto de Empresa Business School*, in Spain, and leading business schools and universities in Latin-America). On the other hand, some business schools set up new campuses in other continents (e.g., the campus of INSEAD in Singapore, see Hawawini 2006), whereas other schools and universities draw on online technologies to meet the distant 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 remaining of this paper is organized as followed. 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 MBA experiences substantial changes. In contrast to the traditional idea that MBAs encompassed two-year, full-time and classroom based programs, business schools are continuously re-designing 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 in the market of MBAs (e.g., Said Business School in 1996 and, more recently, ESMT in Berlin, 2006). There are several reasons that may justify the preference for one-year MBAs: First, 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. Second, the opportunity cost of being out of the market for a long time is becoming increasingly high. Third, 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 MBA 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 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., distant 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, the programs take a blended format, combining face-to-face and online teaching (e.g., the International Executive MBA of *Instituto de Empresa* Business School). Yet, other universities and business schools launch programs that solely rely 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 on-line programmes are trying to provide the best possible replica of conventional classroom methodologies, and not those characteristic 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 decision, we contend, is highly influenced by working condition and market prospects of candidates; they would strive for keeping their present jobs and capitalizing 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. Usually, state-owned institutions of higher education 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 such 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 witnessed the emergence of new public management. Put it shortly, such notion implied that the public sector had "to do more with less." In the case of public universities and centres of higher education, the enforcement of new public management involved that higher education institutions would no longer receive a lump sum of state subsidies no matter the volume of enrolment. In some cases, the enforcement of the ideas of new public management brought about that state funding became a function of enrolment, which ultimately helped to instil competition in the market of prospective students (e.g., Spain). Yet, other countries gave a step further in the process of implementing the ideas of new public management to institutions of higher learning. In the case of the U.K, students currently make a substantial contribution to the actual cost of their tuition fee.

In a similar vein, research funding from the government shifted from across-the-board subsidies to make 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., U.K., the Research Assessment Exercise, *RAE*) through assessments of the research outcome of individual scholars (e.g., Spain, *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, scholars with positive assessments increase their salaries as well as enhance their academic reputation, and this provides them with an influential position within their peers.

Overall, 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 such 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 U.S. The European market is highly fragmented and formed by nearly 2,000 universities offering graduate degrees and aspiring to conduct research. In the U.S., conversely, 250 universities offer such programs. Importantly also, there is an even lower number of U.S. universities and business schools conducting research in business administration (Lambert, 2006).

The U.S. and the European markets of higher education 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 equate the C-market to the North-American market, whereas their starting point is that the European market constitutes a good example of an R-market.

The C-markets, according to Frey and Eichenberger, 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). Albeit the market might 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 interventionists. 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 life tenure. Importantly, the evaluation of faculty is not necessarily based on objective measures of performance but take into consideration aspects such as service and belonging of academics 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 slowly trend towards the C-markets. Such trend is lead by the U.K., which has enforced objective processes of assessment of research performance and established tuition fees that close the gap between price and actual costs. Furthermore, the U.K. 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 follow suit (e.g., the Netherlands). Yet, this process of convergence towards C-markets and truly global universities and business schools will give a step forward through the implementation of the Bologna Accord, which will enforce a real market of higher education in Europe.

In global terms, the market of business education experiences 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 could believe that corporate universities, consultancy firms, and large online organizations operated in a different segment from that of traditional universities and business schools. At present, though, such consideration lacks support. The sector witnesses the growing importance of institutions like Fundação 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% 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 for 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 applicants does no longer exist. 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 participating in business schools' programs as well as in a more balanced mix of nationalities. In short, the needs and habits 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, how to attract them?

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 latest addresses,

affirmed that "(t)he continuing professional education of adults is the No. 1 industry in the next 30 years (...) *mostly on line.*" (Business 2.0, 22 August 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 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 knowledge state that organizations should stick to what they know best. In other words, firms should focus on their core areas to exploit their competitive advantages. In spite of these recommendations, we would rather propose to think "out of the box" to address the challenges posed by the ever changing of business school on their business model. In this respect, we suggest that business school might wish to undertake two structural actions. First, our institutions should adopt an entrepreneurial mindset. By doing this, business schools should deploy a permanent screening of the environments to re-invent themselves in a continuous 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 culture, languages, gender, and race of their students and staff. In turn, these two structural changes will help to mobilize more

concrete actions, such as focus on a portfolio of financial resources, segments of activities, geographical markets and strategic alliances.

----- **Figure 1 to appear around here** -----

### Portfolio of Financial Sources

There is not much to do with tuition. Our reports indicate that customers are becoming increasingly sensitive to prices in recent years. Consequently, many business schools are taking the action of diversifying their offer, through programs like Masters of Science in Management (MSc). In turn, such MSc offer concentrations in a variety of areas, such as finance and marketing. Yet, some business schools are launching DBA programs that attract the interests of managers with time constraints to take a full time Ph.D. program (e.g., Tulane University). Additionally, the executive education divisions of business schools are gaining share in the income structure of business schools as well as providing our institutions with a permanent contact with the demands and needs arising in the industry. This, in turn, results in the allocation of an important volume of resources to design and market executive programs.

As noted above, there is a complete reshuffle in state subsidies. Currently, nation states and supranational bodies like the European Union are funding research projects to the extent that proposals provide substantial prospects of publication in top-tier premier outlets (e.g., the RAE in the UK; the *Comisión Interministerial de Ciencia y Tecnología*, CICYT, 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 of research funding. In turn, this will require the hiring of faculty with such profile.

Rates of success in fundraising differ substantially between the U.S. and Europe, to name two clusters of developed countries. From our standpoint, we

do not see much prospects 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 that firms enroll their employees in regular programs (Executive MBA), take some in-company training and, ultimately, sponsor a chair. In this manner, firms get 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 school 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 became finalist for General Excellence in the National Magazine Awards 2006), but also result in a substantial number of individual and institutional subscriptions. In turn, this adds to publications of hard-copy and multi-media cases, as well as research monographs and books. Altogether, the publishing activity of business schools contributes decisively to their brand names as well as to produce some tangible results.

### Segments and activities

The changing profile of customers and the varying demands of programs make business schools being flexible and responsive. Consequently, the portfolio of the educational offer of business schools typically consists of regular programs (e.g., MBA, EMBA) as well as open programs for executives (e.g., the Global Senior Management Program, which 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 make some programs undergo a complete reshuffle. For example, one of the oldest executive MBA programmes, the Sloan Fellows Programme has got 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 it is the case with the MBA program offered at Stanford University. In its present design, the program enables students tailoring their course schedule according to their needs (Gloeckler, 2006).

Importantly also, 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 in 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 Laws (Executive LLM Program). Such program offers a concentration in business and law as well as an 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 in geographical markets can be thought of as physically moving into other countries and regions as well as diversification the profile of participants. Nowadays, there are high 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. In the case of INCAE, which was initially established in Costa Rica, presently offers courses in Central and

South America. Yet, other schools in Latin-American 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 are starting to position themselves in Africa, Asia and the Middle East. Importantly, offering educational programs in these locations will require considerable adaptation of contents and mode of educations. Individuals of other cultures are not so willing to engage in public 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 internationalization of programs. In general, strategic alliances do not only involve an exchange of students; on the other hand, 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 venue 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 centre. Being 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 contexts of business schools, suggesting that transformations in such environments bring about a change in the business model of our institutions. In doing this, we indicate that the globalization process acts as catalyser of 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 gaining 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. Having that caution in mind, we would suggest that the best combination of measures to cope with such changing demands would involve (i) 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 (ii) emphasis on diversity, our contexts are increasingly varying and we need to rely on the skills of diverse faculty and administrators to cope with such demands. Furthermore, we would suggest business schools to actively seek the idea of diversity in terms of gender, nationalities, and background of staff. Overall, we think that my

suggestion for more entrepreneurship and more diversity would not necessarily have to pursue breadth at the expense of depth. Consistently with what we teach in our programs, we must be able to manage organizations that combine breadth and depth to meet with the challenges of their ever changing contexts.

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FIGURE 1:

Model to Anticipate Change in Business Model of B-Schools

