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Business school sustainability revisited: Sustainable no more?

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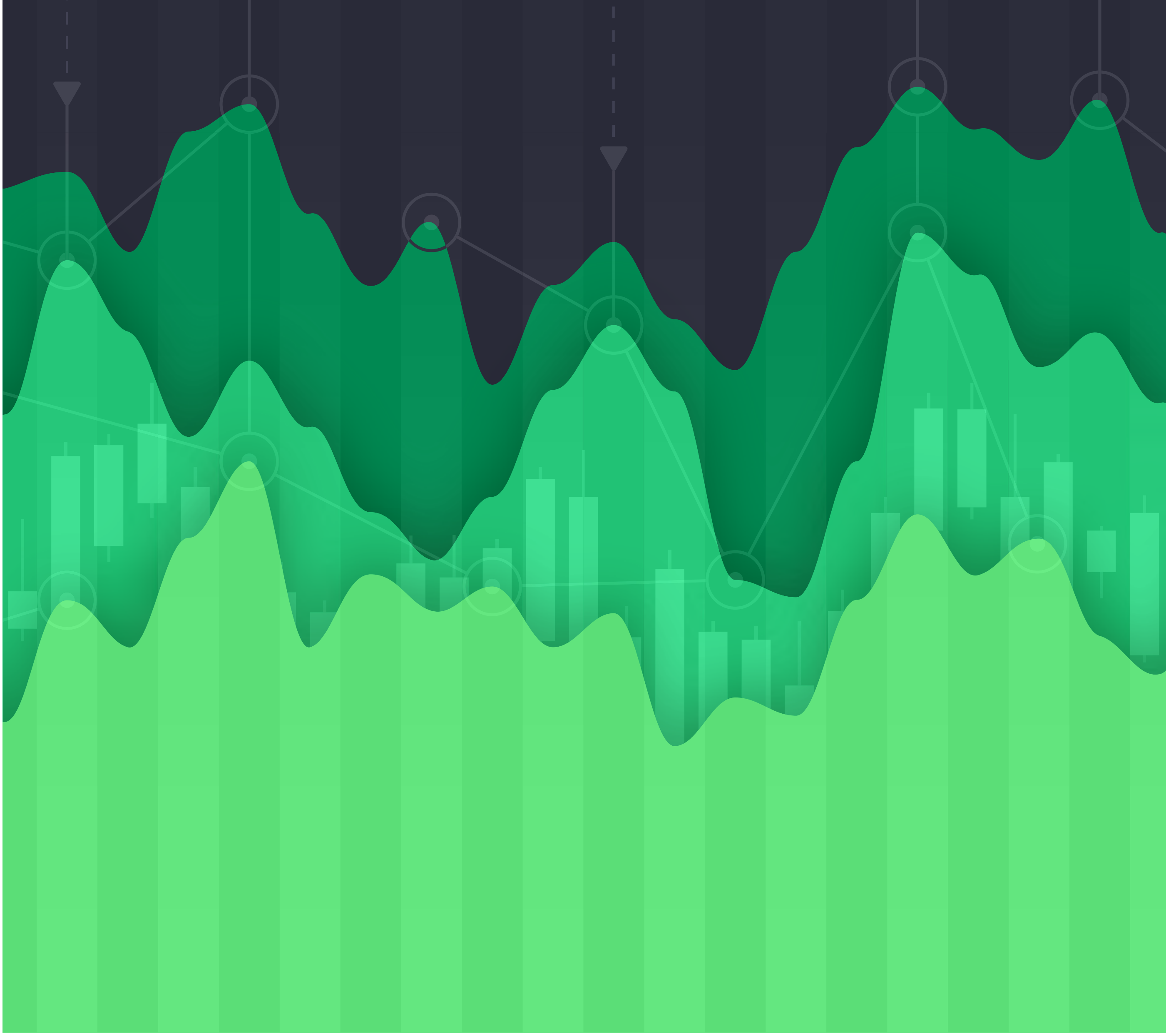
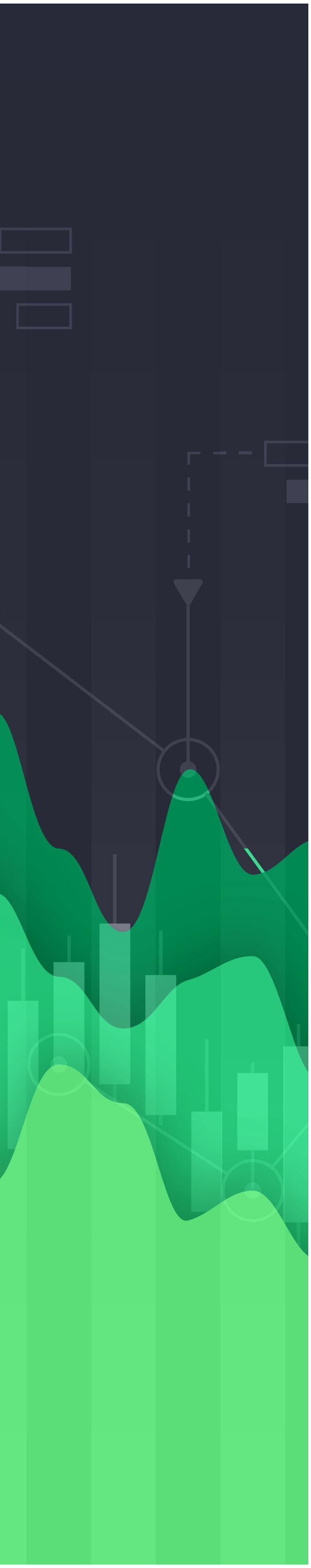
Business School Sustainability Revisited: Sustainable No More?

Kai Peters and **Howard Thomas** reflect on their 2011 Global Focus article and 2018 book, and update the thoughts and developments since then





> *If one looks dispassionately at the business school landscape, it quickly becomes obvious that not all business schools are alike*

In 2011, we wrote an article for Global Focus entitled "A Sustainable Model for Business Schools". In that article, we explored an area we felt was under-investigated: namely examining the sources and uses of business school income. How much did students or executive education participants pay? How many were in a classroom at the same time and consequently how much daily income was generated by the faculty member standing in front of the class? How many hours did faculty members teach annually and consequently what were the carrying costs per faculty member per day? When one applied these measures, what could one conclude about a sensible mix of activities to ensure that a business school generated sufficient surpluses from reasonably predictable and sustainable sources.

The article took on a life of its own, ultimately leading to a book which appeared in 2018 entitled "Rethinking the Business Model of Business Schools". The book provided greater detail and drew attention to the range of per diem income that faculty could generate. At the low end of the spectrum, perhaps surprisingly, was consulting and customised executive education where an individual faculty member could, except at very exclusive business schools, generally generate €2500 to €10.000 per diem. At the other end, it was really a matter of how many students were in the classroom paying how much. The highest per diem income we could identify was a US-based Executive MBA class where there were 80 students in the cohort each paying $180,000. This led to a per diem income for the faculty member at the front of the class of about $240.000. Surely business schools needed to reflect on their portfolio mix and class compositions more than we felt they all did.

Now, over ten years after the original article and from this side of Covid, this short article is meant to reflect on, and update, the thoughts we had originally voiced and the developments since. To achieve this, we will look at the business school eco-system through a number of lenses, and draw on some of our own recent work, as well as a small number of additional sources (a complete literature update simply cannot be captured in a short article) which address contextual developments. We look at four areas: structural issues at university-based and independent business schools; we revisit sources of income; investigate spend on students and the value they get from their business school; and lastly ask what alternatives to traditional business school education have arisen since 2011 should students, and often their parents, feel that ever-increasing tuition fees no longer offer sensible value for money.

1. Structural Issues

If one looks dispassionately at the business school landscape, it quickly becomes obvious that not all business schools are alike. In a 2006 Advanced Institute of Management Research (AIM) white paper, Ivory et al, looking at the UK context, differentiated between elite, research-intensive business schools and inclusive, teaching-oriented institutions. That differentiation still resonates but misses out on an additional crucial factor – whether the business school is independent or part of a wider university. This second factor makes a world of difference from many perspectives. In an independent business school, the dean

is either the boss, or in some cases, second-in-command and reporting to a managing director. There are challenges brought about by the need to have all professional service and compliance functions on the payroll at an independent business school compared to a university where they are shared across a broader portfolio. Size, thus matters, as does the mix of a fixed versus variable payroll. In any case, the institution is autonomous and has the rights and responsibilities to steer the business school in a chosen direction.

At many university-based business schools, the job of the dean is now increasingly to tow the university party line and to hand over as much cash as possible to the central university coffers where it is spent to cross-subsidise other faculties and research centres. In addition to this long-bemoaned and increasingly punitive central university taxation level, an additional trend is evident in many institutions: the increasing centralisation of all but teaching. Anecdotally evident in Australian institutions as well, it is a clear trend in the UK environment. In Peters (2021), the trend to centralisation is critiqued insofar as it diminishes the ability of the business school to be responsive to market trends and additionally, it imposes layers of often unreliable bureaucracy on the school. As an example, when marketing and recruitment is centralised and sufficient student numbers are not attracted, the business school has no opportunity to counteract the shortfall. A recently published Chartered Association of Business Schools white paper (2022) expands on this. The research, conducted among 51 UK business school-based professionals confirms this trend. The report concludes that where centralisation works, professional service staff report centrally but are embedded within the business schools. Strains appear when the balance between centralisation and decentralisation is not well thought through and staff sit and report centrally. In this case, the perceived efficiencies are negated by the lack of responsiveness.

	Inclusive	**Exclusive**
Free Standing	Often private, for profit, and teaching only	Often private, but elite research based
University Based	Often broad access, often research-lite	Often elite and research intensive

2. Portfolio of Activities

Across the world, extensive disruption has been caused by COVID-19. In many cases, student numbers were significantly reduced. While teaching online mitigated some of the damage, it has become clear that in many cases progression rates have fallen significantly. Kong and Patra (2022), writing about the Singapore experience, note an additional concomitant factor – geopolitics. Government support for university funding is reducing, tuition caps for national students have been imposed, and business schools thus increasingly look to international students to fund their activities.

Covid-19

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In the UK, the situation has been made even worse through Brexit. Where in the past, EU students were entitled to UK funding, they are now considered international students who are expected to pay at least twice as much in real money, not the previous half-as-much through the previous graduate tax loan scheme. In that scheme, loan repayments are required once the graduate reaches an income level of about £30,000 per annum. To note additionally, is that the interest rates charged are adjusted annually at RPI plus 3% which in these high inflationary times is very expensive indeed. In practice, this has led to the disappearance of nearly all EU students who had previously comprised up to about 20% of some UK business schools' student body. Business schools, and universities, now scramble to make up this shortfall through attracting students from other markets. In the UK, this has meant to look for ever greater numbers of students primarily from India, China and Nigeria. Not only does this lead to an unbalanced classroom experience, it is also a dangerous business model to have so many of one's eggs in three politically volatile baskets exacerbated by changing work permit regulations in the host countries. At present, 20% of students in the UK are international. Given that they basically pay twice as much as national students, something like a third of income is now derived from these international students. Indian students are in the UK because of the right to a post-study work visa. Similar visa regulations exist in Australia, Canada and the US among other countries. These rules could change at any minute. In our humble experience, trusting the government is even more fraught than trusting centralising universities.

The effects of changing conditions have affected different 'products' in different ways. Undergraduate programmes face larger challenges due to their length and overall cost. PG programmes have grown, but in many schools this is due to international students, certainly in the UK, most would not exist without them. Executive education programmes, all but annihilated during Covid, have not returned to pre-pandemic volumes. Identifying an ideal portfolio mix is thus becoming increasingly challenging.

3. Spend on Students

So, what are students actually getting for their money? Hazenbush (2022), writing for the Graduate Management Admissions Council, as well as Kirkpatrick (2020) writing as managing director of careers at Kellogg School of Management cite the usual reasons: greater career opportunities, access to new industries and functions, accelerating career paths, expanding networks, and, of course, increasing salaries significantly. No surprises there.

While all of these factors will apply for students at many schools, there are a number of factors that candidates applying to business school should consider additionally. Specifically, what happens to the money that students spend on ever-higher tuition fees? We've already noted that international students are often required to spend twice as much as local students. Whether they get twice as much in services and value is surely open to discussion. We posit that there is also a significant difference between stand-alone and university-based business schools. No doubt stand-alone business schools do need to pay for all kinds of professional services, estate-maintenance, etc., one can make a case that spending is fundamentally used for business school attendees.

At university-based business schools, it is generally much more complex. Since its introduction in 2000, UK universities are required to submit detailed financial information to the government. The data, known as TRAC, "The Transparent Approach to Costing" is based on "Time Allocation Studies" where faculty members must fill in a time sheet at three different points in the academic year to show what students get. Data is provided on a subject area basis. As will be no surprise, STEM subjects like medicine and engineering cost about twice as much to deliver as do business subjects. At a detailed level, one can also see that in many university-based business schools, about 25% of tuition is directly attributable to teaching, 50% goes on central university functions where one can ask oneself whether business students benefit, and another 25% goes on further cross-subsidisation.

25%

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If it isn't the actual teaching provision that generates value for the student, it needs to be the additional services received. At stand-alone business schools, the career services to student ratio can be 1:50. At university-based schools, where career services have been centralised, it can be more akin to 1:200 or lower.

The question candidates and their parents must ask themselves is what is the trade-off between tuition costs and the quality of the experience? Will attending a particular institution indeed provide all the benefits noted by Hazenbush and Kirkpatrick, or will one's career prospects be that of a "graduate burger flipper"?

4. Choices

Rather than only considering the trade-offs between stand-alone versus university-based business schools or between inclusive and exclusive business schools, as Ghosh and Thomas (2022) as well as Fournier and Thomas (2022) note, candidates also have other options that are well worth considering. These include lower cost degrees from prestigious institutions, sandwich courses that combine study with work and progression pathways including online / face-to-face combinations. Hommel and Peters (2021) point to the irony of the broad range of countries that had signed up to the Bologna Accord, but where it is nevertheless very difficult to switch institutions and receive accreditation of prior learning (APL). This dilemma has been exacerbated by the many micro-credentials that are available as online learning. Two agreements, notably the European MOOC Consortium and the Digital Credentials consortium which includes Europe and North America, have developed common formats and suitable credits for completed and assessed modules. Additionally, some universities, MIT, and Boston University, have developed MicroMasters, effectively one-third of masters' degrees. They are a bargain at $1500 all in. They are also recognised by 20+ other institutions as a pathway onto their masters, allowing students to waive one-third of the courses and fees. In theory, one could complete two MicroMasters at MIT and switch to another of the many institutions that can accredit up to two-thirds from elsewhere. All-in costs for the masters, two-thirds of which would come from MIT, would be around $5000. As a comparison, the face-to-face version of the MIT masters costs about $77,000. The MBA, at MIT, by way of comparison, today suggests a budget of $240,000 for tuition plus accommodation. Of related interest here is that France has implemented a state-run system called VAE, Valorisation des Acquis de l'Expérience, of accrediting prior-learning as the Ministry of Education was fed up with institutions not recognising learning from elsewhere.

A similar APL construct exists where students have acquired professional body standards. Chartered members of bodies ranging from accounting to human resource management can gain two-thirds accreditation of prior learning from a host of universities and 'top-up' to a masters degree for one-third of the cost of the complete programmes.

An additional route one could consider is that of apprenticeships. In many countries, it is possible to complete one's UG degree in a structured, government-supported manner, on a part-time basis in combination with employment. The tuition cost to the student is zero, and, for example at Accenture, they receive an annual salary of approximately £20,000 per year during their apprenticeship.

5. Conclusion

From the perspective of business school leadership, the need to closely monitor the portfolio mix and related income streams in 2022 remains as it did in 2011. That said, significant changes have come about within the portfolio. The number of international students in the UK has nearly doubled with most of that growth, and thus increasing dependence, on India and China. This same trend appears to hold true in most of the large host countries including Australia, Canada and the United States. European students are increasingly looking to Europe for education with an ever-increasing number of courses being offered in English. Where funding is direct to the university, this can be to the consternation of local ministries of education. Where the ministries have cut back on university funding, international students are needed to balance the books for business schools. On the positive side, there are new opportunities with innovative pathways, top-ups, APL and micro-credentialling, and apprenticeships.

We note that in university-based business schools, students, especially international students, need to be alert to the fact that much of their tuition fee is spent on activities that have very little to do with them and from which benefits can be tangential at best. Candidates need to be alert to what it is they want from management education. If they are after knowledge, skills and behaviours to, for instance, manage in the family business, it is a different choice set than if they need extensive career support facilities and connections to powerful alumni.

Ghosh and Thomas (2022) look at the question of value from a slightly different angle: whether the value from management education should be considered a public or a private good. From the public good perspective, they note that the rite of passage of attending higher education is generally recognised by civil society. Additionally, the skills developed in that process are economically useful. Nevertheless, society increasingly questions costs involved to the state. From the private good side, especially for students attending elite educational institutions, they note elements similar to those noted by Kirkpatrick (2020) and Hazenbush (2022), but also critique the Veblenite conspicuous consumption. In contrast to Kirkpatrick and Hazenbush, they point out that elite institutions may be a significant factor in subsequent income-earning potential for graduates, but endogenous variables make causation claims difficult.

In conclusion, we suggest that business schools, wherever possible, focus as much on the value of their education to students as on the income generation of the portfolio mix of their activities. Only if genuine value is produced for students, and the willingness to pay is recognised by both the students and the students' parents, can it be sustainable over the long run. The challenge is thus to identify programmes and services that are both affordable to students but also lead to positive feedback and lifelong benefit.

About the Authors

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