Kai Peters, **Howard Thomas** and **Rick Smith** suggest that while much has been written about business schools from historical and critical perspectives not enough has emerged from an additional viewpoint – the lens of the business of business schools

The Business of Business Schools

One can use any number of lenses to analyse the development of business schools over the past hundred or so years. But we now need an additional viewpoint – the lens of the business of business schools.

The historical lens

Rakesh Khurana, the renowned Harvard business school professor, has outlined the history and evolution of US business schools from their beginning in the late 19th and early 20th century. He shows how business schools evolved from, effectively, vocational trade schools through to their present state. He cites the tremendous influence that the Ford and Carnegie studies of 1959 had in the repositioning of business schools from practical institutions into academic behemoths.

These two studies, known as the Foundation Studies, are central to an understanding of business education and the business of business schools for every dean and senior business school manager around the world.

As Khurana outlines, foundations, between 1900 and 1935, provided 64% of all grants to US universities both for new initiatives and for existing institutions and thus their money has had tremendous influence over the direction of education.

After the second world war, both the Carnegie and Ford Foundations felt that business schools needed to professionalise and grow beyond their origins. Importantly, in the midst of the Cold War poor-quality business education was seen to threaten the health of the economy, democracy and the American way of life. By 1960, $35 million had been donated to a handful of business schools. And with that much money at stake, there were strings attached.

Schools were to professionalise, with faculty holding doctorates and producing graduate-level academic publications; students were to be taught quantitative methods and behavioural sciences – and only those academically qualified were to be admitted.

The "storm" of rankings changed everything. In simple terms and for better or worse, the advent of rankings in 1987 marked the dawn of the era of business schools as businesses with the rules of the game laid down by the Foundation Studies

And, while not obviously stated but clearly understood, schools were to have an anti-communist, pro-business and clearly capitalist orientation. While the grants that flowed in the 1950s set the scene, the 1959 Foundation Studies codified the expectations and created the framework for the dominant business school model and paradigm that still, for better or worse, exists today.

This paradigm also formed the basis for a second crucial driver in the business of business schools. In a 2005 article for AACSB's *BizEd*, Andy Policano, then Dean of UC Irvine in the US, wrote:

"Few people can remember what it was like before 1987 – what I call the year before the storm. It was a time when business school deans could actually focus on improving the quality of their schools' educational offerings. Discussions about strategic marketing were confined mostly to the marketing curriculum. PR firms were hired by businesses, not business schools. Most business schools had sufficient facilities, but few buildings had marble floors, soaring atriums, or plush carpeting. Public university tuition was affordable for most students, and even top MBA programs were accessible to students with high potential but low GMAT scores."

The "storm" of rankings changed everything. In simple terms and for better or worse, the advent of rankings in 1987 marked the dawn of the era of business schools as businesses with the rules of the game laid down by the Foundation Studies. Now, 30 years later, these rules of the game continue but have also evolved in the present era of disruption. As authors, our forthcoming book, *Disruption in Business Education*, Emerald Publishing 2017, investigates these challenges.

The Business Lens

As an organising principle in considering the management of the business school and the associated activities and offerings, consider a simple value chain. (See Figure 1.)

Not every school is active across the whole spectrum of programme possibilities and not all value chains will therefore carry the same relevance. Depending on the unique situation of each institution, the overall value chain will be re-configured to reflect the business system and processes of each level of a business school's offerings and activities

At each level, beginning with undergraduate education and proceeding along a probably arbitrary age-influenced continuum, there are different components that comprise that chain, drivers that are relevant, and the skills and competencies a school requires at that level. In sales and marketing terms, undergraduate education is a business-to-consumer and consumers-parent proposition with a path to market largely influenced by centralised placement services such as UCAS in the UK.

As one progresses along the age spectrum, the business-to-consumer model holds true for pre-experience postgraduate students but a centralised recruitment system no longer exists. For postgraduate, post-experience candidates, as for open-programme executive candidates, business-to-business consumer marketing is required and for executive education, business-to-business relationship marketing is needed.

Income varies considerably along this spectrum. For all of the business-to-consumer and business-to-business consumer programmes, income per day, what we phrase the "revenue-

€13k

The estimated number of business schools across the globe is over 13,000

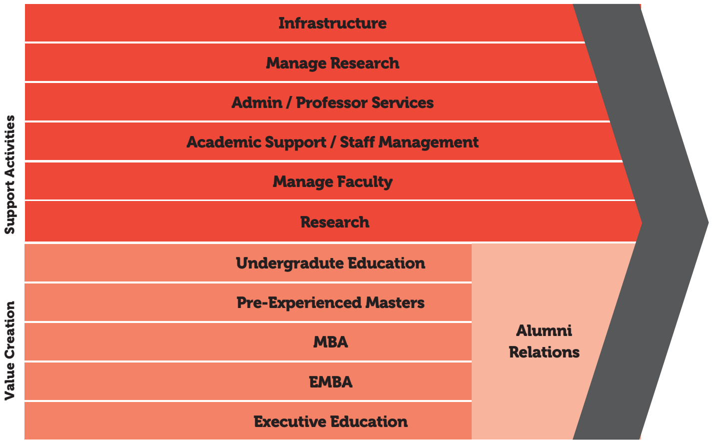

Figure 1

delivered-view" is a straight-forward calculation of tuition x classroom occupancy / days taught.

For customised executive education and similar business to business activities, a comparable calculation sometimes holds true.

More often than not, however, day rates are contractually fixed and are not a direct factor of participant numbers. The variance in income is tremendous. Where custom organisation development consulting can generate only €2,000 per faculty day, the pricey US EMBA programmes can generate €200,000 per faculty day. Between undergraduate and postgraduate programmes, revenue can easily vary between €2,000 per day and €30,000 per day.

While we do not propose running business schools purely on the basis of income per day, surely knowing income per day could aid in sensible decision making. Alas, we do not see many schools calculate along these lines.

Beyond income levels per activity, equally important to examine are the increasing elements of disruption and substitution that have come to play a significant role in the business school landscape.

Schools increasingly face "make or buy" decisions at practically each stage of the value chain. At one end of the spectrum there are schools where almost everything is managed and delivered in-house. At the other end, there are schools that function largely as co-ordinating mechanisms for the purchasing of external services. At nearly every stage of the continuum there are now complementary service providers who will come to the aid of schools to help them provide needed capabilities.

€2k

Custom organisation development consulting can generate only €2,000 per faculty day

€200k

The US EMBA programmes can generate €200,000 per faculty day. Between undergraduate and postgraduate programmes, revenue can easily vary between €2,000 per day and €30,000 per day

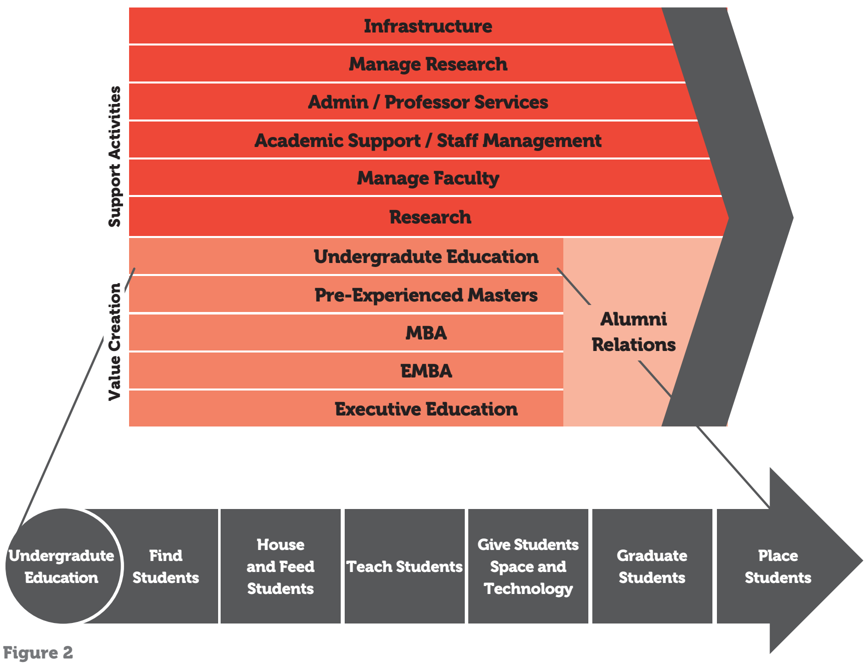

Figure 2

The undergraduate value chain illustrated in Figure 2 is an example of the various stages in the educational process. “Finding students” has become an industry in itself. Nearly 40% of international students are recruited via agents overall, with about 55% of students in Australia and 11% of students in the US forming the “bookends”.

While many agents are small operations, increasing numbers of large players have emerged who recruit, often house and sometimes teach foundation degrees and pre-sessional English to students. While most business schools supplement core teaching capacity with adjuncts and associates for special skills and flexibility, a school can, and many do, use only adjuncts to teach. In the past year, we have become aware of specialist agencies who supply a roster of teaching capacity to a number of London-based branch campuses of regional UK universities.

Providing students with technology or, better said, providing white-label online education is also a big business. Business schools can source provision in exchange for income-sharing arrangements with a significant number of potential partners who will build single programmes or a whole range of programmes, including MOOCs.

Finally, to round things off, business schools can be set up and run using degree-awarding powers from another educational provider. At the moment, there are over 700,000 students studying for UK degrees outside the UK. This is more than the number of students actually studying at degree-awarding institutions inside the UK.

The services, noted above, do not come cheap nor minus attached strings. Getting it wrong, allowing external providers to cherry-pick lucrative services and price them to their own advantage rather than to the advantage of a school is something we have seen increasingly over the past decade.

While agency relationships tend to be multiple and local, student housing or online relationships tend to be large and long-term. Business schools increasingly find large multi-national players with comprehensive legal departments and sophisticated contracting on the other side of the negotiating table. Business schools, on the other hand, tend to be well-meaning amateurs and SMEs in comparison.

Whether we like it or not, business schools need to be managed in a business-like, professional and careful manner whether they are long-established incumbents or newcomers

700k

At the moment, there are over 700,000 students studying for UK degrees outside the UK. This is more than the number of students actually studying at degree-awarding institutions inside the UK

Whether we like it or not, business schools need to be managed in a business-like, professional and careful manner whether they are long-established incumbents or newcomers to business education or to one of the distinct value chains in the mix of programme possibilities

to business education or to one of the distinct value chains in the mix of programme possibilities.

If this short article or our longer book achieves one thing it will be to encourage business schools to think through the consequences, short-term and long-term, of their own structures and financial arrangements.

Adapted from: *Rethinking the Business Models of Business Schools: A Critical Review and Change Agenda,* Emerald Publishing January 2018. Kai Peters, Richard R. Smith, and Howard Thomas.

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