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# Management Education and Its Contemporary Critics\*

Stuart I. Greenbaum  
Bank of America Professor of Managerial Leadership  
Washington University Olin School of Business

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When my dear friend, David Walker, invited me to address this august group I was both flattered and puzzled. He counseled me to read Bob Taggart's recent piece in the *Journal of Applied Finance* for perspective, but his ambivalent essay about "old fogeys" in academe depressed me. I find myself less and less in need of dark reminders. Besides, Bob Dylan's poetry of ageing seems less threatening, if not more lyrical.

Management education, a decidedly American innovation, is secure in its spectacular success. Certainly all of the seniors in this room have been generously sustained by its endlessly variegated growth. Ask any business school professor in shouting distance of retirement how his income, wealth or social station compares with his own expectations at point of entry into the profession. Despite the business school's slightly *de classe* status within academe, the professoriate's emoluments remain among the most munificent on campus and its priesthood enjoys pervasive influence: Drucker, Pralahad and Kotler for the profane and Jensen, Merton, and Engle for the more ethereal.

An ever increasing fraction of businesses and not-for-profits, are led by graduates of premier business schools, and these alumni by and large acknowledge the value of their experience in full- and part-time MBA programs, non-degree executive education and undergraduate business programs. They continue to send their progeny and protégés to these programs, and they participate actively in the affairs of business schools. Donations are another measure. Business schools attract gifts like no others in academe with the possible exception of medical schools where the *quid pro quo* enjoys a terminal quality.

The success of the American business school is hardly disputable, and yet applications to full-time and Executive MBA programs have gone off a cliff since 9/11. At more renowned schools, applications to full-time programs are down a third to a half and even more, and class sizes, ratios of selling-to-sticker price and standard measures of student quality are falling as individual schools adapt to shrinking demand. Cushioning the decline of full-time and executive MBA programs has been the brisk demand for less expensive part-time, one-year and on-line programs, and undergraduate business programs too. However, non-degree offerings, both customized and open enrollment have been in decline adding yet another negative.

Wealthier schools have weathered the budgetary consequences with little apparent discomfort, but the less affluent are squirming. Recent concern about a shortage of PhDs -- the number of U.S. produced PhDs in business has been in decline since 1992 -- has been trumped by budgetary stringency. The previously irrepressible trend to higher faculty compensation has been arrested, as well. Clearly, the industry has hit a soft spot and no one seems comfortable in predicting its duration.

At the same time, there has been an unusually passionate outpouring of self-criticism from the professoriate. Inevitably, this criticism is deployed to explain the waning fortunes of business schools. Three themes dominate. Bennis and O'Toole (BO), 2005, (also see Mintzberg, 2004) have pronounced the industry irrelevant because proximity to practice has been sacrificed for abstract noodling, alternately referred to as scholarship. Rather than conversing with the "real world," an especially offensive derogation, the

professoriate communicates among themselves in a language opaque to all but the anointed. The abandonment of the professional school ethos -- think law school and clinically oriented medical school -- has doomed the enterprise. Business schools pursue the wrong muse according to BO and Mintzberg.

Pfeffer, 2004, in contrast, argues that management educators have lost their souls.

Altruistic values have been supplanted by “show me the money.” Gordon Gekko reigns in a world of narcissistic materialism. This criticism resonates especially well with those who believe the moral turpitude of the Fastows, Koslowskis, Rigas, and the Scrushys somehow tie back to curricular shortcomings of business schools. Just how 18 months (two or three years part-time) in pursuit of an MBA can reverse 25 to 30 years of cultural conditioning remains a mystery.<sup>1</sup>

DeAngelo, DeAngelo, and Zimmerman (DDZ), 2005, attribute the current funk in management education to a communal loss of scholarly focus. This is BO stood on their head, almost. Decanal fixation upon MBA program rankings designed by self-serving journalistic poohbahs has prompted the diversion of scarce resources away from scholarly endeavors and toward more ephemeral pursuits including most especially pandering to myopic MBA students. As a consequence, PhD and undergraduate programs and research have been shortchanged, and superficiality has been advanced in pursuit of student popularity.<sup>2</sup> A kind of “short-termism” jeopardizes the academic enterprise. This criticism is reminiscent of that commonly leveled at corporate leadership allegedly

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1. For a more extensive treatment of this issue, See Callahan, 2005.

2. See Policano, 2005, for yet another attack on the rankings.

fixated on quarterly results. It also calls into question a tribal axiom regarding consumer sovereignty. The notion that producers know best their customers' "true wants" has never set well with market-oriented economists -- is there any other kind? Indeed, this condescending "producer sovereignty" has arguably led to the monopolization of law and government, public education and healthcare and auditing to mention a few notable industries with less than euphoric clientele. Protective cover is often sought in the guise of "professionalism" with accompanying "ethical" codes of conduct and licensure. In any case, DDZ call for a return to more traditional academic values wherein scholarship is elevated to *summum bonum*.

There is much more that could be said about these criticisms of contemporary management education. Perhaps most notably they are typically presented with little empirical support. Odd, since this spate of criticisms seems to have been prompted by the media's own quantification and the dramatic decline in applications to leading U.S. business schools. Shrinking demand has evoked angst as well as budgetary stringency in an industry that had long grown accustomed to profitable growth driven by the expectation that graduates of "better" MBA programs could expect to earn two to three times their salary at the time of program entry. Inevitably, the aforementioned criticism is juxtaposed with the current unhappy market facts and a causal bridge spans as if by magic. Even if mutually exclusive, the tendency is to choose the most appealing criticism to rationalize the fact pattern. Indeed, the criticisms have much of the anecdotal flavor of practitioners' interpretations of short-term price variations in the capital market.

This is not to say that these criticisms are altogether vacuous. Rather, it is their connection with the decline in demand for U.S. full-time and executive MBA programs that seems strained. To be sure, the capture of the industry by *Business Week* and its competitors is an embarrassment. But this should be seen for what it is. Withholding information served the selfish purposes of the schools in their efforts to differentiate and “brand” themselves, i.e., to earn monopoly rents in an information goods market. The consequent of information paucity provided an opportunity that the business press was only too pleased to accommodate. Indeed the proliferating rank and rancorous rankers, following upon John Byrne’s clever 1988 innovation, have meticulously sliced and diced the data in order to differentiate their services, each providing an admittedly stylized albeit quintessential picture of the management education experience. *U.S. News and World Report* sought a more comprehensive depiction, but their ranking is dominated by GMAT/GPA, compensation numbers and a popularity survey of ill-informed administrators. It is altogether too easy to criticize these rankings, but most of the criticism is beside the point. The rankings inform potential buyers, however imperfectly, and thereby influence the demand facing individual schools. This is their essential authenticity and explains the rapt attention they command among disparaging deans.

Turning to the Pfeffer critique, it surely is neither desirable nor even tenable to position management education as *wertfrei*. Although many programs could benefit from more searching discussions of corporate corruption, these do not come without cost. On the other hand, failure to reallocate classroom time toward ethical concerns is more likely to

land business school alumni in “Club Fed” than to have much impact on the demand for management education.

Virtually all of the leading business schools have made recent efforts to address the teaching of business ethics. The quality of these efforts varies widely to be sure, just as offerings in marketing and finance differ. But all deans have heard the popular criticism and nearly all have responded, some with dedicated Ethics and Corporate Governance courses, some by integrating these subjects into other coursework. Some have their students visit incarcerated white-collar criminals, and others have welcomed felons to their schools as speakers. Business school responses to allegations of ethical insensitivity have been forthcoming, variegated and occasionally imaginative. But whether such teachings are effective remains an open question. Whether such teachings have any connection with the demand for management education is still more doubtful.

BO’s, criticism is antithetical to DDZ’s. Their straw man is the insular academic pursuing scholarship for its own sake, *ars gratia artis*. To be sure, some of the finest rewards of academe go to scholars who write for a very limited readership. Moreover, some of these stars show little interest in hobnobbing with practitioners, or even messy databases. By the same token, the university-based management education enterprise accommodates faculty who spend the bulk of their time consulting or speaking to business groups. Schools also employ retired executives and a wide array of adjuncts who produce no research at all. The business school professoriate is strikingly diverse along paradigmatic lines and to characterize it in terms of that small minority of the research-active who are

more reclusive seems singularly misleading and extremely mischievous too. Many of the research-active faculty at business schools serve on corporate boards, many write cases, others actively consult for businesses. Many participate in all manner of *pro bono* activities. Indeed, academic researchers are a diverse lot and among them you can find some who are poor communicators and eccentric too. The great strength of the university is that it accommodates, even celebrates, this kind of inclusiveness more enthusiastically than most institutions in our society. The enterprise is enriched by this diversity and we defame quirky scholars at our peril. Enlightened academic leadership expands the tent recognizing that excellence travels various paradigmatic paths. Professional education benefits mightily from a talented professoriate and diversity enhances faculty quality and the services they provide. In any case, that tolerance and even relish for a particular style of scholarship might have led to a collapse in the demand for management education strains credulity.<sup>3</sup>

Similarly, the DDZ criticism misses the mark in that it fails to recognize the profound impact of the business school rankings. The widespread dissemination of information describing business schools and their programs has for better or worse shifted market power away from an empowered professoriate to consumers of educational services, principally students and employers. This romantic yearning for a return to the pre-rankings age of research *uber alles* seems almost quaint and certainly naïve. The elevated priority of student-perceived teaching quality and concierge-supported career services are not the only outgrowths of the rankings. School resources have been reallocated broadly to reflect the heightened power of a more informed consumer and the

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3. See Cooley, 2005, for a spirited attack of the BO critique.

consequently diminished power of the producer. The good news is that a remarkably responsive industry has, for a time at least, sustained rising wage rates and declining teaching loads. But even these trends seem to be in danger of reversal as employer demand for MBA's has softened.

It is important not to misunderstand my point here. The diminished role of scholarship in management education is not the product of anti-intellectualism, but rather the assertion of empowered purchasers that management education's role extends beyond the production of knowledge. Transmission of this knowledge via effective communication and even training are seen as critical aspects of management education. The singularity of scholarship, not its legitimacy, is being called into question, and that is very good news indeed.

Another way to think about this shift in priorities is in Spence's terms. With business schools two to three decades earlier producing twenty to thirty thousand MBA's per year, it was more appropriate to emphasize the sorting and certifying role of the degree. However, with the current 125,000 graduates annually, teaching and learning are more important. Scholarship will continue to leaven the learning process at better business schools, but its *sui generis* claim on institutional resources is unlikely to be restored, notwithstanding the protestation of DDZ and fellow revanchists.

The market for management education, especially that provided by the top 30 or so U.S. business schools, has been in turmoil since 9/11. This upheaval indeed has been the

warrant for the recent spate of criticisms. My basic point is that these criticisms, however valid in their own right, have had little to do with the market disruption so clearly in evidence.

What then are the factors explaining the declining applications and class sizes among the top 30 business schools? And are these in any way related to the accompanying decline in executive education delivered at these same schools? At the outset, it may be useful to summarize the facts as I understand them. An interpretation and some very limited prognosis follows.

- The number of GMAT test takers has been flat to down moderately since 9/11.
- Total MBA degrees granted in the U.S. are likewise flat at approximately 125,000 per year.
- Applications per applicant to full-time MBA programs are down from about five to three, but this decline took place mostly before 9/11.
- Applications to top 30 full-time MBA programs in the U.S. are down 35 to 65 percent from peak levels in 2002.
- Full-time MBA intakes (class size) at top 30 business schools in the U.S. are flat to down as much as 40 percent from the 2002 peak.
- Schools striving to maintain their MBA intake (class size) have experienced moderate declines in student quality, on standard measures of GMAT, GPA and work experience, and more dramatic declines in selling prices. Nominal tuition has interestingly continued to rise in the face of more aggressive discounting. Not

surprisingly, a declining fraction of increasingly disgruntled students pay the nominal tuition.

Related factoids include:

- MBA programs have proliferated in Europe, Australia and Canada too.
- New programs include part-time and executive designs, and full-time programs as well.
- Taken as a group, these newer programs are less expensive than their more established U.S. counterparts, and often offer the degree in less time.
- Online programs have grown significantly. Again, these are offered at less cost and time.
- Lower-cost part-time programs have shown modest growth in the United States. More expensive executive MBA programs have shrunk even as new programs have been introduced.
- Undergraduate interest in management education is undiminished. Indeed, more renowned programs seem to be going from strength to strength with rising applications and rising measured student quality.

Uppermost is the need to recognize that management education is quintessentially professional education. Therefore, the demand for MBA education in particular, and all manner of management education in general, is tightly bound to the conditions of the job market. The demand for management education is derived. It is an investment with an unabashedly pragmatic rationale.

Moreover, the market for newly-minted MBAs has still not fully recovered from the dot.com collapse of 2001. The downward spike has been reversed, but the frothy heights attained around the turn of the millennium are still the loftiest peaks in sight. During this boom, the highest paying and largest employers -- investment banks and consulting firms -- experienced unprecedented demand for their services and were therefore able to charge their customers premium prices. Indeed, since the prices of consulting services were often quoted as multiples of direct cost, employers made precedent setting offers to new hires with abandon, even glee.

Similarly, investment bankers were doing IPOs, mergers and all manner of financial restructurings in record numbers and profitability. With available capacity strained and opportunity costs skyrocketing, the pursuit of talent was relentless. To exacerbate matters, the more prominent business schools, the primary source of professional labor for the investment banks and consultants, were experiencing a new source of demand for their graduates that effectively reduced supply available to their more traditional employers. The dot.coms themselves were taking an increasing share of the talent produced by more prominent business schools. This was the dawning of the age of entrepreneurship at business schools. Programs proliferated and many of the most creative students either started their own businesses, went to work for embryonic enterprises or venture capital and private equity firms that provided both financial and human capital to younger firms. Stock options were the coin of the realm and the stories of almost instantaneous wealth creation excited the blood of the young and ambitious. Aspiring private-sector bureaucrats neatly morphed into budding entrepreneurs. The

flight to risky businesses had an international flavor as well. More than a few of those attracted to more entrepreneurial endeavors chose not to stop at Silicon Valley and continued west to China, India and other still more exotic venues.

The growth of entrepreneurship among U.S. business schools was a major development that has survived the dot.com bust, but during the boom the movement effected a diversion of talent away from business schools' traditional employers. This redirection imparted powerful upward pressure on MBA compensation packages and fueled the flow of students to MBA programs of every stripe. This adaptation of business schools to an altered pattern of demand stands as a monument to their adroitness and customer sensitivity and flies in the face of the BO and Mintzberg criticisms.

The bursting of the dot.com bubble was matched only by the breathtaking ascent it punctuated. The dot.coms instantly switched from frenzied hiring to wholesale disgorgement. In effect, they became a major net supplier to an already congested labor market. Collapsing equity prices among the dot.coms essentially closed the IPO and "deal" markets creating a surfeit of investment bankers. In addition, with surplus labor, paucity of cash and devalued equity, the demand for consultants evaporated in a flash.

Business schools that in 2000 and 2001 had 90 percent or more of their MBAs placed at graduation were looking at numbers like 50 percent only a year or two later. Deans who earlier passively opened their doors to ravenous hordes of employers were now busily soliciting jobs among their alums. Even temporary or part-time jobs were sought to

address a full-blown crisis among outspoken graduates with expectations of assured employment at no less than 110 percent of last year's representative compensation package.

This was the employment situation for MBA's in 2002. Full-blown crisis may sound hyperbolic, but for those involved the experience was traumatic. The stories of employers "reneging" on job offers were disseminated widely. The falling number and value of offers became known to most and inevitably damaged the perceived value of the MBA degree. While the job market has rebounded from its nadir, it has not recovered sufficiently to mend the damage.

Indeed, this is not simply a perceptual problem. Starting salaries for MBA's have been essentially flat for the past five years and even though real tuition has been declining, sticker prices continue to rise. Moreover, opportunity cost of attending full-time MBA programs has risen as well further eating into the expected return to attending a high-cost full-time MBA program.

The widening gap between nominal and actual tuition, the sticker-to-selling-price gap, had further entailments. As demand fell, stated tuition rates continued to rise both absolutely and relatively, but spreading discounts in the form of scholarships, fellowships, subsidized loans, stipends, and the like, also increased putting downward pressure on selling prices. Hence, the gap between sticker and selling prices widened. This made visible sticker prices less informative and encouraged shopping. The

increased resources devoted to search and negotiation put increasing pressure on margins. The business schools had emulated the pricing policies of the major airlines with increasingly similar results.

#### Closing Thoughts:

Management education has been one of the great success stories of American education. In less than 100 years it has grown from nothing to graduating in excess of 125,000 MBA's annually in service of businesses large and small in the U.S. and around the world. Perhaps its spectacular success explains the recurrent criticism of the enterprise. In a brief year or two of intensive training, business schools have been able to double and even triple the income of its students and set them on a more steeply ascending trajectory of professional success.

To be sure, recessions and wars and supply shocks occasionally result in shrinking job opportunities and declining compensation premia. The current period of stalled compensation growth, job paucity and application declines may be one such episode, but we cannot rule out the possibility that this malaise may be a more secular phenomenon.

Globalization, with its attendant huge labor supply augmentation, technological displacement of higher-priced labor, colossal trade and budget deficits, energy price shocks, and the "war on terror" all share the potential to induce industrial restructurings that could reduce the longer-term demand for U.S. produced MBAs. If this proves to be the case, the management education enterprise will need to adapt and possibly shrink. There is already some evidence of exit via the reduction in MBA admissions at many of

the more prominent schools. There is also a decided shift from full-time to less intensive and expensive part-time and offshore programs.

Secular or cyclical, every hint of shrinkage is accompanied by a spate of criticism calling into question the soundness of the product. Similarly, each new pinnacle of success elevated expectations stimulating criticism, even if misguided. One to two years of study at a quality business school will neither transform blackguards into paragons of virtue, nor the reclusive into consummate team players. Nor is it reasonable to expect each of the 125,000 graduates of MBA programs to ascend to the leadership of Fortune 500 firms, or to find their way into the top one percent of the wealth distribution. Nor will each and every graduate become eloquent, analytically gifted, extraordinarily creative or altruistic. These kinds of transformations are not achieved by mere mortals with 18 months at a university, no matter how well designed or executed their program of study.

What management education does exceedingly well, however, and this is no mean achievement, is to equip the eager and intelligent with powerful tools of business: a vocabulary, basic principles of finance, marketing, strategy, economics, and management science. In addition, communications and analytical skills are often enhanced. These tools in sum accelerate on-the-job learning and productivity. The impact is dramatic and hardly disputable.

The recent decline in demand for MBA education is essentially an ROI story. It will be reversed with growth in employer demand and/or a more time-efficient delivery of MBA

training. Absent these, the industry will continue to shrink and lower cost programs will displace the more expensive, especially those without the greatest cachet. Demography, which has worked against demand recently, will soon turn in its favor, but the more important consideration is likely to be employer demand. A rising tide will not lift all boats, but those that float have reason for optimism.

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