

# Perfect Storm

Three prevailing winds in business education may be converging to create a perfect storm—one that threatens the financial security of many U.S. business schools.

by D. Michael Fields

In the real-life story that inspired the film “The Perfect Storm,” a commercial fishing vessel is placed in catastrophic danger when three significant, yet unrelated, meteorological events converge at sea. This scenario is eerily reminiscent of what we see happening in management education. U.S. business schools are facing some troublesome trends on three different fronts: the doctoral shortage, endowment inflation, and state funding decreases. Each presents its own substantial administrative challenges, but together they are forming management education’s own “perfect storm.”

The consequences of the storm may be positive or negative, depending on how school administrators choose to react. But the result of its onslaught may have many colleges re-examining, or completely revising, their primary missions.

## Front No. 1: The Doctoral Shortage

AACSB International has been warning of the impending shortage of doctoral business faculty for several years. In 2002, its Management Education Task Force issued an ominous report, “Management Education at Risk,” and in 2003, its Doctoral Faculty Commission (DFC) issued its findings in “Sustaining Scholarship in Business Schools.”

The DFC found that the number of business doctoral degrees conferred in the U.S. during the second half of the 1990s declined considerably in comparison to those conferred in the first half. It projected that the shortage would only worsen. In coming years, demand for management education will increase just as supply will be decreasing due to shifting demographics, curricular changes, and financial cutbacks at business schools throughout the country.

Although the total number of U.S. doctorates conferred in all subjects has decreased 5 percent since 1998, most areas—such as the humanities and life sciences—have experienced a recovery in recent years, according to the National Opinion Research Center. Since the early 1990s, however, the number of doctorates conferred in business decreased more than 19 percent. It has fallen to 1,035 business doctoral degrees conferred in 2003 from 1,281 in 1993.

If the trend continues, and most believe it will, management education will be faced with even greater shortages of doctorally qualified faculty. The DFC predicts that the supply of business Ph.D.s will trail demand by 1,142 in 2007 and 2,419 in 2012. If more things go right than wrong, the DFC notes that the shortage could be as few as 21 in 2007 and 334 in 2012. But in a worst-



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case scenario, the shortfall may reach as many as 3,043 in 2007 and as many as 5,689 in 2012.

The problem is exacerbated by the fact that 20 percent to 25 percent of new business doctorates are known to choose careers outside business education, according to the National Science Foundation. In addition, because the career choices of approximately 15 percent of new business doctorates are unknown, the percentage of them eschewing business education could be even higher. Many schools have tried to reverse this trend by offering higher starting salaries to new doctorates; but so far, the percentage of doctorates choosing other careers has not declined, according to AACSB International.

Deans from other disciplines who are competing for limited institutional resources—and who aren't facing a doctoral crisis themselves—may view the idea of a business doctoral shortage with some skepticism. To dispel their doubt, business school deans must gather the evidence and educate top university administration about the validity of the shortage.

Furthermore, spiking salaries for doctorally qualified new hires has created a new problem: salary inversion. In AACSB International's 2005 Salary Survey, the mean salaries for doctorally qualified new hires exceeded the mean salaries for associate professors in all five disciplines listed. Soon, it may not be uncommon for an associate professor with ten years of experience and a solid record of teaching, research, and service to earn \$10,000 less than a new hire just brought on board. Some AACSB-accredited institutions may already be experiencing full salary inversion, in which starting salaries for doctorally qualified new hires exceed those of the highest paid full professor. Not surprisingly, such a discrepancy promises to cause tremendous morale problems among existing faculty—as well as for the dean.

### Front No. 2: Big Money

The size of donor gifts to many higher education institutions has been steadily escalating. The December 20, 2004, issue of *BusinessWeek* addressed this trend in an article, "Rich College, Poor College," which noted that 22 colleges and universities have announced capital campaigns of \$1 billion or more.

Business schools have been able to attract substantial gifts as well. GMAC's *Selections* recently studied the naming gifts that business schools received between 1998 and 2003. Of this group, 13 schools received between \$25 million and \$62 million. Since November 2001, *BizEd* has reported gifts of \$20 million or more to six additional schools. The largest was \$100 million awarded by Stephen M. Ross to what is now the University of Michigan's Ross School of Business. The publication also reported 11 gifts or grants ranging from \$5 mil-

lion to \$17 million, and 37 gifts or grants ranging from \$1 million to \$5 million.

Of 387 AACSB-accredited schools that responded to a 2002–2003 survey by AACSB Knowledge Services, almost 10 percent had endowments exceeding \$50 million. Sixty percent, however, had endowments of \$5 million or less.

To be fair, the scope of funding across colleges of business is not as clear-cut as *BusinessWeek*'s title suggests. It's less a dichotomy than a continuum, which comprises richer schools, poorer schools, and all schools in between. Even so, those well-funded schools in the top 10 percent will be better positioned to protect their faculty with endowed chairs and professorships. They have more resources to develop or enhance areas of specialization and support student scholarships.

Schools at the other end of the continuum—that 60 percent—will face substantial difficulties. They will have limited capacity to attract and keep competent faculty, develop or maintain areas of competence, or offer innovative student programs. It is over these schools that the storm clouds are darkest.

### Front No. 3: Reduced Funding

Schools are facing a lower level of support from their principal funding sources. Public schools, for example, are receiving less money from their state governments. Anecdotal evidence suggests that even private schools are feeling the pinch, as the funding they receive from various partners begins to decline.

*The Chronicle of Higher Education* recently published an article under the headline, "State Spending on Colleges Drops for the First Time in 11 Years." It reported that 23 states approved spending plans for higher education for the 2003–2004 fiscal year. Each of these plans allocated less funding than in the previous year. Thirteen states made similar cuts in 2002–2003, and five states did so in 2001–2002. This trend has led some administrators to suggest, somewhat tongue-in-cheek, that the term "state-supported higher education" should be revised to "state-assisted" or simply "state-located."

Current political winds do not promise to blow in any additional support in the form of tax increases. Many state legislators have imposed limits on boosting revenue through tax increases, and the funds that are available are often spent on K–12 education. So, not only is the size of the pie not increasing to match inflation, but the size of the slice allocated to higher education is getting smaller.

Some might argue that these events should be handled by simple "belt tightening" among higher education institutions. But when this belt tightening must happen just as schools are struggling to keep up with their better-funded



counterparts and offer competitive salaries to top faculty, the negative effect may be staggering.

### **Weathering the Storm**

Any one of these three forces could pose serious problems for business school administrators. Together, they promise to present a full financial firestorm of challenge. Although business schools are likely to survive the storm, these challenges threaten to curtail the freedom deans have historically exercised to protect the integrity of their schools. Their hands will be tied with budget cuts, limited endowments, and an inability to attract and retain talented faculty.

Of most concern is that these factors may make it increasingly difficult for schools to maintain the research component of their missions. Once business schools lose their research leaders, they may have difficulty hiring worthy replacements. At that point, they may be left with only one option: to revise their missions to reflect a much smaller research component. If these schools are unable to maintain an adequate percentage of academically qualified faculty, they may also be unable to meet AACSB accreditation requirements.

Just as the fishermen in “The Perfect Storm” were unable to steer clear of the danger, it is likely that many business schools will be unable to disperse these ominous clouds before they unleash their full force. Business schools are, in fact, already engulfed by the storm. To withstand it successfully, many schools will have to make fundamental changes:

**Become better fund-raisers.** To say that schools must raise more money may seem an oversimplification. Schools now in the greatest need are those that previously have had the least success in securing external funds. Even those schools most adept at fund raising require six to 24 months to gain a major gift commitment; even then, only one in three qualified prospects ultimately provides a major gift. Furthermore, no school’s problems are solved with a single major gift. A dean often requires a series of substantial gifts to have sufficient operating leverage.

Nonetheless, effective fund raising will be an absolute necessity, one that deans can expect to consume an increasingly higher percentage of their time. Schools that have historically been poor fund-raisers must strengthen their networks, develop better relationships with alumni, and further improve their fund-raising potential.


**Allocate faculty salaries more fairly.** Deans who are able to secure funding and bring new faculty into their business schools still must correct the problem of salary inversion. Money to enhance faculty salaries will be available only in increments over relatively long periods of time. Deans will have to rank faculty and allocate salary enhancements over several semesters, if not years. These maneuvers will require a great deal of administrative acumen to actually improve, rather than diminish, faculty morale.

Such attention is better than the alternative. After all, salary inversion is a double-edged sword. Deans may choose to pay more for new hires than they do for their established faculty. But as these new faculty develop well-defined streams of research, other schools will be more likely to recruit them, often by offering substantial salary increases. A mid-level school that has made good hires, nurtured and supported young faculty, and established a presence in a particular area of research could have its faculty gutted in one recruiting season.

**Keep an eye on research.** In the end, fund raising and faculty salary management are the two most effective ways for schools to protect an important element of their missions—their research. Faculty at schools that neglect these two areas will likely see their research productivity decline. Business schools must maintain sufficient levels of scholarship. Only then can they retain their best faculty members, reputations, and accreditation status.

### **Change for the Better**

A perfect storm, by definition, is a convergence of independent events that form an environment never experienced before. The unprecedented storm that now engulfs U.S. business schools could last for a decade or longer. Regardless of its duration, it will change permanently the funding, faculty, and research focus for many of the nation’s business schools.

As marketing guru Theodore Levitt has suggested, the goal of firms facing a dynamic environment is to “survive gallantly.” Such gallantry may be difficult for business schools to achieve, especially when faced with such strong simultaneously challenging winds of change. But the schools that acclimate well to the storm are sure to emerge stronger for it. 

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