

## I B-School Critics Miss the Mark

### Management education, a decidedly

American innovation, is secure in its success. We need only consider the number of businesses and nonprofits run by graduates of premier business schools to know that business schools offer a valuable product. But if this is true, why has there been such an outpouring of self-criticism from business educators?

Warren Bennis and James O'Toole, Jeffrey Pfeffer and Christina Fong, Harry DeAngelo and Linda DeAngelo, Jerry Zimmerman—all have decried the state of business schools today. At the heart of their criticism lies the implication that business schools are completely to blame for the problems they face, that declining enrollments and other trends are the direct result of business schools' failure to meet the needs of their market.

Although their criticisms are not altogether groundless, I could not disagree more. Business schools are well-advised to look for ways to improve their programs; but the inferences these critics make, I believe, are unfounded.

Yes, business schools are facing difficult market realities. Applications to full-time and executive MBA programs have declined since September 11, 2001. Even top-tier schools are reporting that the number of applications to their full-time programs is down 30 percent to 50 percent. Class sizes, ratios of selling-to-sticker price, and standard measures of student quality are falling as individual schools adapt to shrinking demand. Business schools also must cope with a decline in

the number of business doctorates, which has been steadily decreasing since 1992. Faculty compensation has been arrested, and budgets are tight. Clearly, the industry has hit a soft spot, and no one seems comfortable in predicting its duration.

Criticism from the professoriate has come in the wake of the waning fortunes of business schools. One faction, voiced by Bennis and O'Toole, has pronounced the industry irrelevant because professors' proximity to "real world" practice has been sacrificed for scholarship. Pfeffer and Fong represent the view that management educators have lost their souls and that altruistic values have been supplanted by a "show-me-the-money" mindset among our students. This criticism resonates especially well with those who believe the moral turpitude of the Fastows, Kozlowskis, Rigas, and Scrushys of the world somehow tie back to the curricular shortcomings of business schools.

Finally, the DeAngelos and Zimmerman offer yet another perspective. They attribute the current funk in management education to a communal loss of scholarly focus. Schools' fixation upon MBA program rankings, they argue, has prompted the diversion of scarce resources away from scholarly research.

Implicit in much of this criticism is the idea that the current predicament of many business schools stems from their own refusal to adhere to academic ideals and adapt to changing times. However, linking this criticism of business schools to the decline in demand for full-time and executive MBA programs seems strained. What these critics

fail to consider is that many exogenous factors have been at least partially to blame for the decline in enrollment:

**Increased competition.** American MBA programs are challenged with the plethora of options available to prospective students. MBA programs are proliferating in other parts of the world, part-time programs are increasing in popularity, and online programs have proven remarkably alluring.

**The job market.** The demand for management education—and for MBA education in particular—is tightly bound to the conditions of the job market. Generally speaking, the more employers are hiring MBAs, the more applications there are to MBA programs. The tougher the job market for MBAs, the fewer applications business schools are likely to see in their admissions offices.

**Dot-com disasters.** The growth of entrepreneurship among U.S. business schools is a beneficial development that survived the dot-com bust of 2001. However, during the boom, the movement diverted talent away from business schools' traditional employers. This redirection applied upward pressure on MBA compensation packages and fueled the flow of students to MBA programs of every stripe.

With the pricking of the dot-com bubble, equity prices collapsed among the dot-coms and essentially closed the IPO and "deal" markets. The result was a surfeit of investment bankers, devalued equity, and a lack of cash and capital. The demand for consultants evaporated and, not surprisingly, so did the demand for business degrees. In 2000 and 2001, many MBA pro-

grams had 90 percent or more of their students placed at graduation. A year or two later, these same programs were placing only 50 percent of their graduates. Stories of employers “reneging” on job offers were widely disseminated. The falling number and value of job offers 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 done by the dot-com debacle. Starting salaries for MBAs have been essentially flat for the past five years. Moreover, the cost of attending full-time MBA programs has risen, further eroding the number of people seeking to attend a high-cost, full-time MBA program.

**The global environment.** To be sure, recessions, wars, rising fuel costs, and supply shocks occasionally result in shrinking job opportunities and declining compensation. The current period of stalled compensation growth, job scarcity, and application declines may be one such episode, but we cannot rule out the possibility that the problem could be sustained. Globalization, with its attendant technological displacement, trade and budget deficits, energy price shocks, and the “war on terror,” has the potential to reduce the long-term demand for MBAs. If this proves to be the case, the management education enterprise will need to adapt—and possibly even shrink.

With these factors in mind, we can better process what the critics have to say and take a realistic look at what business schools have to offer. For example, there are certain things that management education will *never* be able to do.



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A quality business education will neither transform blackguards into paragons of virtue nor turn recluses into consummate team players. It will not guarantee that each of the 125,000 MBAs who graduate each year will ascend to the leadership of Fortune 500 firms or find their way into the top 1 percent of the wealth distribution. It will not ensure that each and every graduate will emerge from his or her business education amazingly eloquent, analytically gifted, extraordinarily creative, or wonderfully altruistic.

What management education does, and will continue to do exceedingly well, is to equip the

eager and intelligent with powerful tools of business: the basic principles of finance, marketing, strategy, economics, and management science, as well as the proper vocabulary to discuss them articulately. It will enhance their communication and analytical skills, accelerate on-the-job learning, and improve productivity. This is no mean achievement—it is the value and purpose of management education.

One thing is certain: Business schools must respond to competition and marketplace demands. While educators certainly should consider the rash of criticism of business schools carefully—and respond where appropriate—they should not accept the implication that they are somehow responsible for the decreasing demand for business education.

The decline in business school enrollment could be reversed by a variety of factors, including a 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. Student demographics and employer demand will continue to evolve, and business schools will need to stay in touch with these trends.

Only then will business schools' circumstances improve. Of course, a rising tide will not lift all boats. Those that float, however, will have reason for optimism. **Z**

Stuart Greenbaum is the Bank of America Professor of Managerial Leadership at the John M. Olin School of Business at Washington University in St. Louis, Missouri. He served as the dean of the Olin School from 1995 to 2005.