Too much of a good thing

A V Vedpuriswar / New Delhi July 12, 2005

The steady increase in tuition fees suggests that B-schools are offering students more than they need.

For the second year in a row, applications for admission to the top American B-schools have fallen. According to a report in BusinessWeek, applications to the top 30 MBA programmes in the US have dropped almost 30 per cent since 1998, with some B-schools seeing declines of 50 per cent or more. The booming job market, high tuition fees and the quality of training are some of the reasons given to explain the decline. Reports say companies like Goldman Sachs no longer consider MBA essential for promoting people to the senior management cadre.

Overpriced, over-educated?

As Harvard Business School professor Clatyon Christensen has pointed out, B-schools must understand why people want to do an MBA. If they do so, they will be better tuned to market needs.

Many people want to get an MBA to move ahead in life. They see education as a way to get a job, make them better placed to get the next promotion, or be better equipped to solve problems they face in the workplace.

But they are not able to study because of shortage of time, financial resources, or skills. Many people already in business or in high-pressure jobs would find it difficult to clear the CAT exam conducted by the Indian Institutes of Management (IIMs). Or they may not have the time to attend a full-time MBA programme.

Christensen's core argument is that opportunities for disruption emerge when something becomes too good vis-à-vis the needs of customers and in the process becomes over-priced. What most students want out of an MBA programme has not really changed over time.

So the steady increases in tuition fee over the years imply that B-schools are offering students more than they need. Sports, recreation and medical facilities, libraries full of academic journals, landscaped gardens and imposing buildings are examples of such features.

Many leading B-schools strongly believe that the job of a general manager is comprehensive and inter-dependent. They assume future managers can't understand marketing unless they study product development, which they can't unless they study manufacturing, which they can't unless they study cost accounting and so on.

But many working executives only want to learn just what is required. The leading B-schools are probably trying to teach students too much.

If one were to go by Christensen's argument, the business model used by top B-schools has become vulnerable to disruptive attack. Although most leading B-schools are not-for-profit organisations, they have to generate substantial surpluses.

Top schools try to provide the best education to the best students and attract the best faculty to do the best research. So they have to pay faculty decent salaries, give them minimal teaching loads so that they can pursue consultancies, maintain their infrastructure and support research activities.

With government funding progressively drying up, the B-schools must charge relatively high tuition fees to cover these costs. At the same time, much of the research work done by the faculty is far removed from the needs of MBA students.

Disruptive innovation

B-schools face a real threat from disruptive innovators who may target students who are unattractive to the leading B-schools.

They can adopt a different, no-frills business model, without a large campus or high-priced faculty or air-conditioned classrooms.

Consequently, they can be viable at fee levels that would be simply unacceptable to leading private institutions. Also, they can provide short, special-purpose courses and can master new ways of teaching.

Instead of delivering two-year, multi-disciplinary programmes, they can develop shorter, highly specialised offerings. They can use information technology to facilitate the learning process, allow students to learn at the time and place they find it convenient, and manage the administrative transactions involved in a far more cost effective way.

Inside attack

One big threat to the leading B-schools comes from corporate training centres. As MBA programmes become increasingly expensive, more and more companies may begin recruiting their management talent directly from bachelor's degree programmes and train the recruits at their own training centres.

Indeed, after the CAT fiasco in 2003, there was a writer who argued that the IIMs should only conduct the CAT and leave it to companies to train the successful students!

Corporate training centres like those at Infosys, Larsen & Toubro, TCS and Dr Reddy's may today not be as well equipped as the IIMs for imparting management education. These centres act as coordinating agencies and are mostly dependent on visiting faculty from the top B-schools.

But as they become better at doing whatever is necessary to help employees improve problem-solving skills, they will be motivated to get the best materials from the best instructors. Often this will be done through video, CD, or the Internet.

Disruptive models emerge when value migrates across the value chain. This is something the leading B-schools seem to have completely forgotten. In case of management education, there is a good chance that value may migrate from the assembler, the B-school, to the course instructor.

A course on business strategy from Michael Porter, for instance, would make eminent sense. But whether the candidate took the course at a B-school, at the employer's learning centre, or through an e-learning program would be irrelevant.

Indeed, the kind of business model which the Indian School of Business at Hyderabad follows, is based on this principle. Most of the ISB faculty are not full-time employees of ISB, but come from various American and European management institutions.

Still, it makes sense for ISB students to attend classes by such reputed professors, not those conducted by full time faculty of an average or mediocre quality.

What options do leading B-schools have? Given their high cost structure, they will find it difficult to cut costs. Instead, as the basis of competition changes to convenience, the real opportunity may lie in working together with the corporate sector and creating learning modules that are customised exactly to suit each learner's needs.

Today's leading schools are well positioned to create such modules. If they do so, they will capture value. Christensen refers to this as becoming the "Intel inside" of corporate education.

In short, the leading B-schools across the world are likely to face major risks in the years to come. Faculty in these schools keep teaching students how to cope with change. It remains to be seen how well they themselves will cope with change.

A V Vedpuriswar *is the dean of the Hyderabad-based ICFAI Knowledge Centre.*