ABSTRACT

At a time when U.S. MBA programs are suffering from ailments including declining enrollments, multifaceted financial challenges, and a changing competitive environment, schools of Business must consider alternate treatment plans to restore the health of their programs and ensure their sustainability.

Keywords: MBA, business education.

INTRODUCTION AND BACKGROUND

Due to the culture of the country and a lengthy history in Business education, the United States has long been considered the pioneer and leader in Business education. While Business education started in the early 1800’s as vocational, for-profit education, in the latter part of that century, there were concentrated efforts to professionalize the Business education in a fashion similar to that of the legal and medical fields (Khurana, 2012). The concept of Business education in a University based school was solidified by Wharton and Harvard in the late 1800’s and was embraced by several marquee public universities predominantly in the mid-west and western part of U.S.

The first graduate Business degrees were awarded by the Tuck School of Business at Dartmouth around 1900 as a part of a combined program involving a three year undergraduate liberal arts degree and a two year graduate Business degree. This ushered in the era of MBA degree. Several private and public universities followed suit with graduate Business education degrees that became an engine for creating much needed managers for corporations during a time of rapid industrialization in the U.S. University based undergraduate Business education also became common place. The goal of the Business schools was to develop professional managers who would lead corporations in a scientific manner guided by ethical principles. The number of students pursuing Business as a major in University based Business schools grew from about 100 students in the year 1900 to approximately 50,000 in 1925. During that same period, the number of Business students in for-profit programs grew from 90,000 to 180,000 (Bossard and Dewhurst, 1931).

Graduate Business education soon became the fastest growing graduate degree program and the schools offering these degrees often were substantially different from one another with respect to their structures. The American Association of Collegiate School of Business (AACSBI was formed to shepherd Business education into a professional and socially transforming experience.
Curricular fundamentals and requisite faculty qualifications prescribed through AACSB brought a much needed standardization of both the processes and the outcomes expected from the Business schools.

From 1940 to 1970, the growth in graduate and undergraduate Business education, in terms of number of students and Universities offering degrees, continued to grow. In Europe and Asia, graduate Business education started gaining ground as the success of the U.S. schools became apparent and the need for professional managers became a global phenomenon.

During the same timeframe, the Ford and Carnegie foundations encouraged the University based Business schools to define and nurture the research mission of the Business discipline. Growth in the student body, faculty, and funding provided by the foundations firmly established the social sciences and economics theory-based research mission as a norm for Business schools (Khurana, 2012). While rankings by the U.S. News & World Report and Businessweek for programs in the United States and global rankings by the Financial Times have increased the prestige of the programs, they have also both positively and negatively influenced the way that University based Business School “do business.”

The growth of multinational companies and globalization increased the prestige and fame of Business schools in the 20th century, with graduates and faculty achieving lucrative and fulfilling careers. Following a number of high profile, corporate financial scandals, graduate Business programs, specifically the MBA, bore the blame for business leaders abandoning the welfare of the society for the sake of shareholder wealth and for unethical practices driven by greed and short-term gain. Still graduate Business degrees managed to remain popular with a plethora of MBA options such as full-time (2 year and 1 year), online, weekend, evening or part-time, and executive versions available to serve wide-ranging populations and interests.

**CHALLENGES IN THE 21st CENTURY**

**Financial**

The influence of the rankings demands a very high level of service, thus substantially increasing cost. The financial crisis in 2008 coupled with concerns about the ethical and social orientation of business leaders posed a major issue for MBA programs. The failure to have adequate checks and balances in crises called into question the academic preparation of the business leaders, again specifically those holding MBA degrees. The economic downturn also led to reduced state support and reduced returns from endowments which translated into increased tuition for students. An apparent anti-business mood of the general population and a tough job market cause a potential student to question the purpose and value of a graduate education in Business.

A glance at the top 50 Business schools suggests that average cost of tuition and living expenses for a full time MBA student is around $100,000. Add to that the opportunity cost of lost wages of around $100,000 and the cost of fulltime MBA program degree reaches @ $200,000. In an uncertain job market, pursuing a fulltime MBA has become a tough decision for applicants. On average, 20% of student fees are covered by scholarship and/or graduate assistantships. (Mulhauser, 2001) One year full-time, part-time and on-line MBA options become attractive as
the cost of lost wages is reduced or eliminated from the equation. On-line programs offer the added advantage of students being able to meet family obligations and corporate expectations. Reduced government support for student loans and a decline in corporate reimbursement for part-time and online programs contribute to the financial pressures on students and schools.

Business school faculty are becoming more costly as well. Due to the lack of qualified Business PhD candidates, the average compensation for Business faculty has increased in recent years (AACSB, 2012). In addition, an increased emphasis on research productivity for tenure and promotion has reduced the teaching time available from faculty.

Declining Enrollment

Since 2009, the press has been rife with stories of declining MBA enrollments on a fulltime basis across the globe, with a steep drop in U.S. Since most of the traditional full-time, part-time and on-line programs require the GMAT as an admission requirement, the number of GMAT test takers can be used as a barometer for the level of interest in these programs.

The following tables and graphs provide a snap shot of trends in global and U.S. GMAT takers from 2007 to 2011 (GMAC, 2012).

Global GMAT Test-Takers Interested in MBA:

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>FT MBA</td>
<td>100,350</td>
<td>115,997</td>
<td>128,708</td>
<td>118,277</td>
<td>98,029</td>
</tr>
<tr>
<td>PT MBA</td>
<td>45,383</td>
<td>47,945</td>
<td>43,545</td>
<td>37,492</td>
<td>32,994</td>
</tr>
<tr>
<td>EMBA</td>
<td>9,817</td>
<td>10,613</td>
<td>10,147</td>
<td>8,857</td>
<td>8,171</td>
</tr>
<tr>
<td>Undecided</td>
<td>13,013</td>
<td>15,195</td>
<td>16,084</td>
<td>15,122</td>
<td>13,015</td>
</tr>
<tr>
<td>TOTAL</td>
<td>168,563</td>
<td>189,750</td>
<td>198,484</td>
<td>179,748</td>
<td>152,209</td>
</tr>
</tbody>
</table>

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Global GMAT Test-Takers Interested in MBA

![Graph showing GMAT test-takers](image-url)
U.S. GMAT Test-Takers interesting in MBA:

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>FT MBA</td>
<td>55,230</td>
<td>61,524</td>
<td>66,333</td>
<td>62,116</td>
<td>52,153</td>
</tr>
<tr>
<td>PT MBA</td>
<td>40,154</td>
<td>42,026</td>
<td>37,525</td>
<td>32,024</td>
<td>28,309</td>
</tr>
<tr>
<td>EMBA</td>
<td>6,863</td>
<td>6,905</td>
<td>6,171</td>
<td>5,373</td>
<td>4,819</td>
</tr>
<tr>
<td>Undecided</td>
<td>10,097</td>
<td>11,530</td>
<td>11,980</td>
<td>11,350</td>
<td>9,745</td>
</tr>
<tr>
<td>TOTAL</td>
<td>112,344</td>
<td>121,985</td>
<td>122,009</td>
<td>110,863</td>
<td>95,026</td>
</tr>
</tbody>
</table>

Note that the 2011 numbers are below 2007 levels across all categories in the U.S. and all but the undecided category for the global test takers. The declines are much more severe for the U.S. test takers as can be seen in the table below.
Percent Change in GMAT Test-Takers Over Time:

<table>
<thead>
<tr>
<th></th>
<th>% change from 2007 to 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.S.</td>
</tr>
<tr>
<td>FT MBA</td>
<td>-5.57%</td>
</tr>
<tr>
<td>PT MBA</td>
<td>-29.50%</td>
</tr>
<tr>
<td>EMBA</td>
<td>-29.78%</td>
</tr>
<tr>
<td>Undecided</td>
<td>-3.49%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>-15.42%</td>
</tr>
</tbody>
</table>

The advent of online programs and growth of MBA programs outside of U.S. along with technology enabled productivity increases have all had an impact on the number students interested in traditional domestic full-time and part-time MBA programs.

The rise in the number of schools outside of U.S., especially in emerging markets such as China and India where they have their own exams such as the CAT in India, has also contributed to a decrease in the number of GMAT test takers (Dhawan, 2012). In the last three years alone, the number of countries outside of the U.S. that have AACSB accredited Business schools has grown by 30%, increasing from 33 to 43 countries. (AACSB, 2009 and 2012)

While the GMAT takers intended for U.S. full-time, part-time, and EMBA have dropped 5-30%, the GMAT takers in the undecided category has a smaller drop. GMAT does not have an official category for students planning to pursue an on-line MBA and perhaps a significant number of students have checked the undecided category. Overall, it appears there is a decline in the number of people exploring MBA options under any category in U.S. based Business schools. While a decline is also apparent for global students, it is not quite as steep.

Business Undergraduate Program Impact

Business undergraduate programs have grown steadily from the start of the century to date, although there were brief periods of declining enrollments during the economic crises, especially in 2001 and 2008, as well as during a dip in the high school population around 2008. The enrollments have come back steadily over the past two years and are back to historic highs. In the most recent Businessweek undergraduate survey, the enrollments and starting salaries are back to pre-financial crisis levels, around $50,000 for the top 50 schools. (Businessweek, 2012)

Many full time MBA programs historically targeted engineering and liberal arts undergraduate students who worked or wanted to work in a business profession. The belief was that these non-Business students needed to learn Business theory and practice and develop professionalism to enhance and advance in their careers. In these earlier years, the majority of students in MBA programs had undergraduate degrees from outside of Business. During that time, the growth in Business undergraduate programs and their success in student placement left little need for Business graduates to pursue expensive retooling through a fulltime MBA degree. These
students already possessed practical and theoretical knowledge and had developed professionalism in their undergraduate studies. If they wanted to earn an MBA degree, part-time or on-line programs were viable options.

Today the undergraduate Business majors represent the fastest growing segment of MBA applicants (Zlomeck, 2012). They typically view an MBA degree as a means to switch fields within business areas. Many also believe that an MBA degree leads to added employment security and career advancement opportunity. This growing interest in an MBA among undergraduate Business majors has grown considerably, as can be seen in the following tables (GMAC, 2012). In 2011, more than 50% of GMAT test takers had Business degrees. This trend is also seen in MBA programs with similar proportions of enrolled students possessing undergraduate Business degrees.

**GMAT Test Takers Composition Count:**

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Students *</td>
<td>203,101</td>
<td>228,575</td>
<td>243,522</td>
<td>236,736</td>
<td>229,065</td>
</tr>
<tr>
<td>Business UG Major **</td>
<td>93,487</td>
<td>104,524</td>
<td>115,168</td>
<td>117,163</td>
<td>116,136</td>
</tr>
<tr>
<td>Engineering UG Major ***</td>
<td>29,123</td>
<td>34,032</td>
<td>34,953</td>
<td>32,217</td>
<td>30,140</td>
</tr>
<tr>
<td>Other</td>
<td>80,491</td>
<td>90,019</td>
<td>93,401</td>
<td>87,356</td>
<td>82,789</td>
</tr>
</tbody>
</table>

*All test takers who reported an undergraduate major

**Includes Accounting, Business Education, Finance, International Business, Management, Marketing, Operations, Other Business/Commerce

***Includes Engineering and Other Engineering/Computer Science

**GMAT Test Takers Composition Percentage:**

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business UG Major **</td>
<td>46%</td>
<td>46%</td>
<td>47%</td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td>Engineering UG Major ***</td>
<td>14%</td>
<td>15%</td>
<td>14%</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Other</td>
<td>39%</td>
<td>39%</td>
<td>39%</td>
<td>37%</td>
<td>36%</td>
</tr>
</tbody>
</table>
This shifting composition of MBA programs poses a huge challenge for MBA curricula to be general for degree holders from outside of Business and highly specialized for Business degree holders.

**Ranking Systems**

Ranking systems have become an important source of information for potential MBA students. Most of the ranking systems significantly weight measures such as average GMAT score, years of work experience, and outgoing average salary. Other measures include reputation by peers, student satisfaction, employer satisfaction, and class demographics such as percent women, international and underrepresented population.

It can be argued that none of these measures actually captures the academic quality of a program itself. Thus, ultimately, the quality of students admitted and accepted to the program becomes the surrogate driver of ranking success for the schools. This in turn leads to selectivity in admissions and increases the need for schools to offer scholarships and other incentives to attract the top students. Such an approach does not improve a program. Rather, it improves the quality of the incoming student for programs that have the reputation and financial means to attract them.

**TREATMENTS**

With this backdrop, a set of possible treatments is now offered to address some of the many challenges or ailments that domestic MBA programs currently face.

**Time**

As with so many of life’s ailments, with time and patience, improvement can happen naturally. One promising shift that is foreseen is a change in demographics in the U.S. While the number of high school graduates has been fairly flat for the last few years, forecasts indicate the start of an increasing trend in @ 2016 (College Board, 2009). Thus, the supply of potential students will naturally grow with time. Schools of Business must be well-positioned to identify promising students and recruit them when the time is right.

**Financial Improvements**

Schools waiting for a turnaround in the economy are relying on increased financial aid and graduate assistantships to help them ride out the current downturn in interest. They are also seeking efficiencies through alternate delivery methods and the use of clinical or lecturer faculty who cost less and are able to teach a higher number of credit hours per semester than tenure track faculty. Some schools have eliminated programs or reduced the size of programs. The Kellogg School of Management at Northwestern recently announced their intent to reduce the size of their traditional two year program by up to 25% (The Economist, 2012)
There are signs of improvement in the economy and the associated corporate requirement for hiring/promoting MBA qualified individuals. For the last two years, rankings from the U.S. News and World Report illustrate that 90% of students from top 50 schools were placed with an average salary of around $100,000 (Burnsed, 2011). Persistent somber news coming from corporations and the news media has overshadowed these positive signs, so this information has not yet resulted in an increase in the number of GMAT test takers or in the number of MBA program applicants. U.S. schools must be proactive in disseminating this important information to prospective students.

**Rethinking Graduate Education**

Business schools might consider shifting their attention and resources toward one year MBA programs, specialized Masters programs, and/or new target markets. They might also consider partnerships with corporations, governments, other Universities to design and deliver new programs. Many recent examples illustrate this shift.

As the Kellogg School of Business reduces the size of its incoming two year MBA class, they intend to redefine themselves with more of an emphasis on a one year MBA and specialized masters programs. Schools of Business at the University of Florida, Arizona State University and Indiana University are promoting online MBA and MS programs. Duke University introduced a Global MBA program aimed at the executives with short stints around the globe. The University of Michigan launched a weekend MBA program while the University of North Carolina recently started an online program. Numerous part time programs have become more flexible allowing for different rates of progress and several admission dates, providing options for class times and locations, and offering hybrid courses.

For specialized knowledge, some schools have created short duration or online certificate programs (@ 15 credit hours) in current topical areas such as Business Analytics, ERP, Project Management, Sustainability, Green Industries, Social Entrepreneurship, Risk Management and Healthcare Management. Certificate programs allow corporations to mass customize their degrees and develop highly skilled professionals internally for their desired niche area. Such programs also have global appeal due to shortened duration and cost.

Some U.S. schools have developed global partnerships to launch EMBA programs predominantly in emerging economies such as China, India, Korea, Brazil, and South Africa. Global population demographics and economic growth should motivate U.S. based Business schools to find a mutually beneficial mechanism to impart graduate business education in emerging economies at an affordable rate. Business schools have to find efficient ways to accomplish this without compromising hard earned research respect, faculty quality, and the educational experience. Technology, social media, and global partnerships seem to be components of the solution.

University based Business schools in the U.S. have not made as much progress in developing partnerships with corporations as their counterparts in Europe. The school/corporation relationships in the U.S. thus far have typically been based on student recruiting, executive training, and alumni connections. Through further development of such partnerships, the value of
the degree can be enhanced and the time required to complete the degree can be shortened through unique internships, career coaching opportunities, and blended learning models.

An underserved and growing population in the U.S. that some schools might consider targeting is the “older” student. Programs for this population would not necessarily be designed to introduce business fundamentals or strategic thinking. Nor would these programs compete with the EMBA. Rather, they might be designed to help established professionals transition to a new industry. They might be designed to launch a second career for a person who has already retired from one. Or they might be similar to the certificate programs mentioned earlier that permit quick mastery of current topical areas. Since the average age of Americans is rising and will continue to do so, Business schools can have a substantial social impact by providing unique programs aimed at this older population.

**Ratings Rather than Rankings**

In a recent *Businessweek* article (Rubin et. al. 2011), an alternative to the existing ranking system, was proposed. The article proposes a “more complete rating (as opposed to ranking) system built on a comprehensive set of quality indicators.” A rating system, by its very nature, would not evaluate an MBA program based on the performance of another program. Rather, it allows programs to pursue their strengths and fulfill their unique missions through specialized studies and appropriate program structure.

Until such an alternative rating system is available, University based Business schools will have to work together to soften the impact of rankings, so that they are not all trying to excel on the same predefined criteria. When schools define success in exactly the same way, they risk becoming so much alike that the importance of subtle differences in success is inflated in the rankings. They also risk neglecting their unique program features that are not recognized or valued in the ranking system. In a brand conscious society, schools can brand themselves in students’ perceptions on the value of a “full experience” or a “specialized experience.”

**CONCLUSIONS**

The strained economy, the flawed ranking system and the changing competitive environment have a triple-witching effect on MBA programs’ abilities to remain sustainable. There is no simple cure for what ails domestic MBA programs. Rather, the treatment involves a recommended and ongoing set of best practices. Higher education, in general, and graduate Business education, in particular, must collaborate, adapt, reinvigorate, and embrace innovation to stay healthy and relevant.

**REFERENCES**


