DEDICATION

To my late mother, who made so many sacrifices to ensure we had opportunities.

Although being realized a little late, your wish for all your daughters to be doctors has come true.
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ABSTRACT

DISRUPTING THE MBA:
HOW NEW EDUCATIONAL MODELS CAN RESHAPE THE FULL-TIME MBA

Wendy P. Tsung
Robert Zemsky

The traditional, full-time MBA program environment has become increasingly tumultuous. The many pressures facing business schools, from declining interest of applicants to the burgeoning number of schools and degree formats, have led many to predict that the model cannot continue as is and is ripe for change. Many believe consolidation in the business school marketplace is inevitable and survival is not guaranteed.

Business schools instruct students that, in today’s competitive environment, companies must be able to adapt and quickly respond to changes in the business environment. However, business schools do not seem to have practiced what they preached. Although most business schools would say that they are continuously improving the degree, they likely would agree that most of the changes have been incremental and that the traditional MBA program has remained largely unchanged since its inception. The primary purpose of this study is to explore how the full-time MBA program might be transformed by seeing how four highly ranked business
schools would view innovations developed by two leading business schools and whether reengineering the educational model also transforms the business model.

There is a strongly held belief that the traditional two-year, in-person MBA will continue to be relevant but may be sustained only by the top-20 schools. The hundreds of other business schools will be forced to adapt, but the degree and urgency to which they do may vary based on their perception of the school’s standing and their willingness to challenge existing beliefs around their brand image, pride of creation, and entrenched incentives.

Change and adopting innovation do not guarantee success. Likewise, doing nothing does not guarantee failure. Change, however, is inevitable and might happen quicker than business schools anticipate because of market forces. Business schools that have the most to lose already have begun experimenting with innovation outside their reputation-based full-time program. Should the expertise built and lessons learned from this experimentation be incorporated into their full-time programs, the established schools may witness a new pecking order.
Better to disrupt yourself than to have someone else do it for you.

—Jack Welch
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CHAPTER 1: A WAYWARD AGENDA

Introduction

The traditional, full-time, two-year master’s of business administration (MBA) is magic. It is probably the only advanced degree where one can get a complete “do-over” in their careers. In only two years, armed with an MBA, architects can become investment bankers, poets can become consultants, and engineers can become dog food marketers, all at twice their pre-MBA salary. The ability to emerge after two years of school on a completely different career trajectory has helped make the MBA the most popular master’s degree in the world.

Even as the MBA waters have been on a slow simmer for the past 30 years, they are fast becoming a rolling boil for this versatile and life-changing degree. The industry has become crowded with more than 16,000 schools worldwide offering business degrees, an increase of roughly 1,600% since 2000 (AACSB, 2015b; Datar, Garvin, & Cullen, 2010). The full-time program—long held as the flagship program for MBA education—is facing intense competition from an increasing number of program formats, such as the part-time, executive, and online MBA; a slew of specialty master’s programs; a growing corporate training market; and, most recently, from companies such as No-Pay MBA. The latter cobbles together a collection of free online business courses that simulate an MBA degree (Blass & Weight, 2005; Howard & Cornuel, 2011; Moldoveanu & Martin, 2008; Pfeffer & Fong, 2002; Thomas, Lorange, & Sheth, 2013). Dan Turner, associate dean of Masters Programs at
University of Washington’s Foster School of Business, says, “If the full-time MBA were a stock . . . you would have shorted it a long time ago.” Today, the traditional two-year programs account for only 23% of the MBA degrees (AACSB, 2015b).

Further complicating matters, the increase in the number of competitors is occurring at the same time the pool of students is shrinking. According to the Graduate Management Admission Council (GMAC), the number of people taking the Graduate Management Admissions Test (GMAT) worldwide dropped six percent since 2010, although it rebounded by a single percent in 2015 (GMAC, 2015). In the United States, the total number of people taking the GMAT has dropped 33% since 2010 (GMAC, 2015). In a recent Association to Advance Collegiate Schools of Business (AACSB) survey of 113 graduate business schools in North America, the median size of the full-time program is 80 students and shrinking (AACSB, 2014). Students today want convenience, flexibility, and a clear return on investment. They are shying away from the cost and time commitments required from a full-time program. A shrinking pool of students brings into question the financial viability of the traditional MBA program (GMAC, 2014a; Starkey & Tiratsoo, 2007; Thomas, Lorange, et al., 2013).

At the same time, obtaining an MBA is becoming more expensive. The two-year tuition at an elite business school can exceed $120,000, yet many schools are unable to cover their costs in delivering the full-time program (Byrne, 2014a; Nelson, 2012; Terwiesch & Ulrich, 2014). Graduate business schools continue to maintain small full-time programs and invest in faculty, facilities, scholarships, and cocurricular experiences “under the widespread belief that a full-time MBA program enhances the
school’s overall reputation . . . and ranking” (Terwiesch & Ulrich, 2014, p. 4). In an interview with John Byrne at *Poets and Quants*, Mark Fuller, the dean at the University of Massachusetts Amherst, Isenburg School of Management, a #74 ranked school with a class size of 45 full-time students, says, “We don’t do off-the-rack MBA; we do made to measure” (2015). These customized and personalized experiences often come with a premium price tag, and the traditional MBA fits the bill.

Business schools purport to develop the leaders of tomorrow and, by 2012 estimates, four out of 10 CEOs of the Standard & Poor’s (S&P) 500 companies held an MBA (Meglio, 2012). And yet, in a report commissioned by the Association to Advance Collegiate Schools of Business (AACSB), the accreditation body for business schools, Porter and McKibbin (1988) lamented that, in their quest for rigor, business schools had lost their relevance. More recently, critics including business school faculty (Khurana, 2007; Mintzberg, 2005; Navarro, 2008; Pfeffer & Fong, 2002), the business community (Carlson, 2014; Skapinker, 2008), and students have echoed the sentiment that business schools are teaching the wrong material with the wrong methods to the wrong students (Benjamin & O'Reilly, 2011). “MBA programs devoted less time and attention to developing students’ managerial skills, attitudes, and a sense of purpose or identity,” and many scholars and business professionals argue that business education is trapped in a nineteenth-century world of “learning by knowing,” while the twenty-first-century world requires the judgment and skill of
“learning by doing” (Datar et al., 2010, p. 322; Dewey, 2007; GMAC, 2013; Khurana, 2007; Mintzberg, 2005; Moldoveanu & Martin, 2008).

Business schools teach students how to assess market dynamics, adjust to changing environments, develop strategies to manage organizational change, and foster an environment of innovation. Organization and management is a core branch of the business school curriculum. In recent years, many of these schools have launched innovation centers and have faculty dedicated to research on this topic. Yet business schools do not seem to do for themselves what they teach their students.

Full-time MBA programs have demonstrated responsiveness to change as evidenced by evolving program structure, course content, and cocurricular activities. However, these changes have only incrementally improved existing programs and student satisfaction, leading to modest gains over existing programs. Significant changes and innovations to programs such as the executive MBA, online MBA, and executive education formats have occurred outside the full-time MBA format, thus protecting the flagship program and rankings (Gioia & Corley, 2002). As quickly as a school launches a successful innovation, other schools adopt those changes so that the overall market quickly returns to the status quo (Gioia & Corley, 2002). Each innovation has helped improve the traditional MBA program but not revolutionize it. To be fair, the critiques of the MBA and the lack of revolutionary change have been bounded by the current institutional, economic, and intellectual framework in which the degree operates, so the lack of revolutionary change is not surprising (Moldoveanu & Martin, 2008).
Market forces are shifting, providing an opportunity to reframe the conversation that addresses the viability and relevance of the MBA. Technological advances during the last 20 years have changed not only how we communicate, the reach of our interactions, and how we access and use information, but also the speed at which all of this happens. New technologies and a global marketplace provide schools with a chance to reframe the MBA program and radically redefine management education (Datar et al., 2010; Sheth & Sisodia, 2002).

Many say that higher education and business education are being disrupted (Christensen, Horn, & Johnson, 2008; Datar et al., 2010; Gallagher & Garrett, 2013; Graduate Management Admission Council, 2013; Useem, 2014). “Disruptive innovation” is a new approach or product that over time becomes a better alternative, thereby displacing the original market with a new and different one (Christensen & Eyring, 2011). Albeit many have identified technology as the disruptive innovation that can reshape management education, technology is only a tool, an enabler that allows business schools to realize their vision of business education (Christensen et al., 2008; Datar et al., 2010; Thomas, Lorange, et al., 2013). Technology needs to align with the strategy of the institution and requires resources and organizational support to realize success.

When institutions are forced to react to change, they may be constrained by their situation and unable to respond in a way that supports their strategic goals (Eckel, 2007). However, a proactive approach allows an institution to review what is important, establish and prioritize objectives, determine how best to allocate resources,
and identify desired outcomes. New models of education enabled by technology may be the disruptive innovation that allows some business school leaders to break through current institutional, economic, and intellectual constraints and reinvent the MBA.

Schools are responding to new models in several ways. Some are resisting the encroachment of technology in the classroom and believe the current model will prevail. Other schools are experimenting with the use of new models and technology in a single course or a set of courses. A select few are making strategic decisions about significant infrastructure investments that ultimately could change the financial and competitive dynamics of the full-time MBA. Maybe all of these models survive or, instead, some combination of various models will emerge as the dominant model. Perhaps the true disruptor is only in a nascent state today or has not yet been developed. Regardless, change to the full-time MBA is inevitable. What the MBA looks like in the future depends on how schools with resources choose to develop innovations and how other schools elect to respond.

Disruptive innovations occur as a process and not a “cataclysmic event” (Christensen, 2006). Though it is still early and a clear model or models have not yet emerged, to understand how business schools are thinking about the changing environment and their approach to their own model can provide insight into how the MBA may be reshaped in the future. As Mintzberg says, “Some patterns are worth watching until their effects have more clearly manifested themselves. Then those that prove useful can be made deliberate and be incorporated into the formal strategy” (1987, p. 75).
MBA History and Changing Context

Barely a century old, the graduate business school is one of the most polarizing schools in the academy. The degree has gained wide acceptance; however, recurring tensions exist with the business schools’ focus on research over practice, and criticism about the relevance and legitimacy of the degree has increased (Benjamin & O'Reilly, 2011; Khurana, 2007; Latham, Latham, & Whyte, 2004; Mintzberg, 2005; Pfeffer & Fong, 2004). Although business schools have evolved in the last century, the changes have been incremental to better the existing offering. Myriad forces are hitting business schools and their flagship traditional MBA program at an unprecedented pace. The increasing competition and substitute products, rising cost of tuition, changing demographic of students, and questions surrounding the value of the education are just a few of the many challenges discussed below (Datar et al., 2010; Khurana, 2007; Starkey & Tiratsoo, 2007). As Mintzberg suggests (2005), these changes have had dysfunctional consequences on the education of management practice, such that “we are teaching the wrong material with the wrong methods to the wrong students” (Benjamin & O'Reilly, 2011, p. 452).

To understand the future of the MBA requires knowledge of its history - the defining moments that created the current institutional, economic, and intellectual structure, and the challenges currently facing MBA programs. An understanding of the market needs and enabling technologies can provide a view of what is possible for management education.
The Rise of the Business School

There is even disagreement over when the discipline began: some trace the birth of the graduate business degree to Edward Tuck’s donation to Dartmouth in 1900 (Daniel, 1998), while others point to Joseph Wharton’s generosity to the University of Pennsylvania in 1881 (Datar et al., 2010). Nonetheless, there is agreement about the purpose of its founding and the challenges of gaining legitimacy in the academy. The first business schools were founded in response to industrialization and the need for “trained managers” (Currie & Knights, 2003; Daniel, 1998; Datar et al., 2010). As business became more complex, the need for professional managers grew.

Many universities across the country created their business program in the early 1900s. Harvard and Stanford established their business schools in 1908 and 1925, respectively, and were the first schools to introduce the master’s of business administration degree (Mintzberg, 2005). What is interesting is that most of the academics who responded to the market call for trained managers lacked firsthand knowledge about business themselves and had few ties to the business community (Mintzberg, 2005). Nevertheless, they were “confident they could discover an underlying ‘science’ of business, convey that science to the future leaders of corporate America, and thereby develop a new profession of management” (Mintzberg, 2005, p. 22).

Lecturing was the primary method of teaching. However, in 1919, the new dean of Harvard Business School, Wallace B. Donham, a banker, argued that the business curriculum should emphasize a problem-centered approach based on real-life
situations (Merseth, 1991). The case method solved the problem of the Harvard faculty’s having little practical experience and students who “stomped their feet when lectures became boring” (Mintzberg, 2005, p. 29). Donham established a Bureau of Business Research to collect cases for faculty and, by 1923, a high proportion of the courses at Harvard were transformed from lecture-based courses to discussion-based courses (Merseth, 1991).

With the growing complexity of the business environment, business education gained credibility as a profession and not just a vocation. Business education was being recognized for its “body of knowledge, code of ethics and professional societies” (Daniel, 1998, p. 73). Along with this newfound credibility, the number of business schools increased from about 40 in 1915 to 3,348 in 1948 (Mintzberg, 2005). However, the academic quality did not necessarily improve proportionally with the growth in numbers. At most business schools, the management curriculum was a collection of “vague principles, akin to folk wisdom” (Mintzberg, 2005, p. 24).

The Pendulum

Business schools knew things needed to change: they offered too many courses, did not attract the brightest students, and lacked enough faculty with doctoral degrees (thus lacking quality research). In 1959 two highly critical reports from the Ford Foundation and Carnegie Foundation critiqued the dire condition of business education and the woeful state of business school research and theory in the United States. The recommendations of the two reports can be grouped into three broad
areas: 1) increase the proportion of research-oriented faculty; 2) standardize the required MBA curriculum around a basic set of courses with a strong emphasis on quantitative analysis and the incorporation of social science; and 3) improve doctoral programs to train future generations of business school faculty (Khurana, 2007, p. 273). The findings and recommendations from these two reports were not surprising, and they fundamentally changed the core of business education (Mintzberg, 2005).

These findings drove the AACSB to change accreditation standards to require, among other things, more PhD faculty. These changes moved business education toward an academic, theoretical approach and away from the practical approach favored by the business community (Daniel, 1998). With these changes came new academic respect on campus. Research moved to the forefront, and doctoral programs flourished as business schools took their place alongside accepted professional schools and scientific disciplines. Before 1959, few universities offered a PhD specific to business. Business professors had backgrounds in areas such as psychology, economics, mathematics, philosophy, history, and sociology. After 1959, a new business PhD program was established every three weeks for the next decade (Daniel, 1998). As the number of PhD graduates grew, so did their influence on business education. In less than two decades, young PhD graduates, most without any business experience, dominated the business school faculty (Daniel, 1998). The pendulum had swung from practice to scholarship.

The Ford and Carnegie reports also moved the business curriculum toward conformance. Both studies identified a particular set of courses that should be offered.
These courses are still the bedrock of the MBA curriculum today, with 85% of the top 50 schools requiring the same seven courses: marketing, finance, accounting, economics, management, statistics, and business law (Khurana, 2007). In a study of the curriculum at the top 50 U.S. business schools, Peter Navarro (2008) determined that, while there are variations at the margins, most of the curricula at these 50 schools utilize a functional-silo design and are all quite similar. This design is consistent with how business schools are organized (Chia & Holt, 2008; Datar et al., 2010; Navarro, 2008). Business schools operate around specialized functions, whether they are research ideas, program designs, faculty hiring, or courses taught. Given the specialization, it is difficult to develop and organize new knowledge in a way that is helpful for students. Instead, faculty teach what they know, transmitting their “disciplinary expertise” rather than what the students need (Benjamin & O'Reilly, 2011; Datar et al., 2010; Mintzberg, 2005). Business schools may teach material that cuts across the specialized functions, but they do so within a particular function (Mintzberg, 2005). “As businesses work valiantly to bust down the walls between their ‘silos,’ business schools work valiantly to reinforce them” (Mintzberg, 2005, p. 32). The result of the reports was a “distressing tendency for schools to avoid the risk of being different . . . [and the emergence of] a cookie cutter mentality” (Porter & McKibbin, 1988, p. 314).

The enduring impact of these two reports is immense. Some saw the Ford and Carnegie reports as a “welcome improvement that added rigor and discipline to business schools” (Datar et al., 2010). Others saw the impact as “causing severe and
probably permanent damage to business education forcing it into a narrow and overly-theoretical mold” and the beginning of the MBA’s decline in relevance (Paxton, 1997). However, there is general agreement that these reports established “the educational paradigm that has guided the nation’s business schools to this day” (Gordon & Howell, 1959; Porter & McKibbin, 1988; Thomas, Lorange, et al., 2013).

Growth of MBA Programs

Following these two reports, business schools invested in developing scholarly, discipline-based academic research. Critics accuse business schools of producing arcane, academic research that has little relevance to business (Pfeffer & Fong, 2002; Thomas, Thomas, & Wilson, 2013). However, these changes helped to increase the credibility and legitimacy of the MBA degree.

Spurred by the growing economy, the GI bill, the increasing number of women entering the workforce, and a societal shift toward consumption, the MBA degree enjoyed a period of tremendous growth (Daniel, 1998). From more than 4,000 graduate business degrees granted in 1958, the number grew to 42,654 in 1976 and to more than 100,000 in 1998 (Datar et al., 2010). Between 1965 and 1980, an average of 26 business schools was established each year (Khurana, 2007). In 2015 there were more than 1,300 AACSB member schools and 727 AACSB-accredited schools (AACSB, 2015a). For many, the MBA was regarded as the “golden passport to financial well-being” (Khurana, 2007).
Business school rankings also played a part in fueling the growth and interest in the MBA degree (Friga, Bettis, & Sullivan, 2003). The *BusinessWeek* rankings, started in 1988, focused on such factors as the quality of the class, the number of job offers received, starting salary of graduates, and the quality of teaching. This lens is quite different from the emphasis on research and scholarly reputation of faculties. John Byrne, the journalist who created the *BusinessWeek* rankings, believed that—with few exceptions—business schools did not seem to care about the perceptions of the people who “buy their product,” the students and corporations (Khurana, 2007). Rankings would help create a market for business education where schools would be focused on their two primary customers.

Published rankings became an influential source the market used in forming impressions of a school (Starkey & Tiratsoo, 2007). U.S. institutions have become obsessed with media rankings as they compete for prestige, public awareness, and the opportunities that might not be available to lower-ranked institutions. Several scholars argue that, in higher education, status has become a more important objective in institutional decision making than money (Eckel, 2007; Martins, 2005). Today, media rankings exist for every format of the MBA programs. However, the ranking results of the full-time MBA program still garner the most attention because it is often considered the flagship program of a business school (Gioia & Corley, 2002). The perceived quality of the flagship program provides a halo effect for the rest of the school.
The rankings prodded business schools to become more proactive about the packaging and marketing of their product. Schools increasingly invested in tailored marketing programs and pursued new student markets, especially abroad. The quest to do well in the rankings is central to the thought and action of a business school, primarily because “the ranking number has become a surrogate sound bite index of program quality for prospective students, corporate recruiters, funding agencies and other stakeholders” (Gioia & Corley, 2002, p. 108). Little has changed, however, as far as the faculty-driven perspective focusing on knowledge creation and assimilation (Friga et al., 2003).

**Dissenting Voices**

Despite the continued popularity of the MBA degree, the criticism has continued. Many articles point to how MBAs are ill equipped to manage and lead, how the MBA degree is not a prerequisite for management-level jobs, and how MBAs lead corporations to failure (Benjamin & O'Reilly, 2011; Mintzberg, 2005; Pfeffer & Fong, 2002; Skapinker, 2004; Smith, 2011; Thomas, Thomas, et al., 2013). Business schools are criticized for not being rigorous enough in teaching critical thinking and problem solving, and many of their loudest critics are business school faculty (Bennis & O'Toole, 2005; Datar et al., 2010; Khurana, 2007; Mintzberg, 2005; Pfeffer & Fong, 2002). On the research side, the report is equally disparaging. Research at business schools has become more and more specialized and removed from practical business relevance (Khurana, 2007; Pfeffer & Fong, 2002). The research that is generated in
business schools is not being used in the business setting nor cited by other academics (Pfeffer & Fong, 2002; Skapinker, 2008, 2011). Employers have voiced their concerns regarding the value of an MBA given that communication, critical thinking, and interpersonal skills are lacking in these degree holders (Datar et al., 2010; GMAC, 2014b).

The criticism that faculty did not understand real business and focused instead on “irrelevant research” increased (Datar et al., 2010). In 1984 Secretary of Commerce Malcolm Baldrige accused business schools of pointing their students in the wrong direction — “up in the ivory tower” rather than “down on the factory floor” (Daniel, 1998). Around the same time, the AACSB commissioned a study by Lyman W. Porter and Lawrence E. McKibbin. This study (as summarized in Khurana, 2007) reported that employers were criticizing elite business schools for graduating students who lacked “knowledge of how the business world operates in practice as well as in theory” and exhibited “relatively low levels of so-called soft, or people, skills—e.g., leadership and interpersonal relations.” The report also showed that most businesses did not find business school research useful and described an attitude of “self-satisfaction” and “complacency” among business school administrators and faculty.

Critics within the MBA programs argued that the MBA does not appear to provide graduates with any more skills than their non-MBA peers (Mintzberg, 2005; Pfeffer & Fong, 2002). The education many business schools offer does little to prepare managers for their daily realities. In fact, an MBA is not required to lead a firm while a degree in medicine or law is necessary to practice in those fields. Many
companies had to devote substantial time and resources to train their new MBA hires with regard to topics such as communication and presentation, problem solving, and project management.

In April 2002 the Management Education Task Force of the AACSB issued a report questioning the relevance of business-school curricula in today’s global marketplace. Among the AACSB’s recommendations are for MBA programs to teach “basic management skills, [such as] communications, interpersonal skills, multicultural skills, negotiations, leadership development, and change management . . . and prepare managers for global responsibility” (AACSB, 2002). Twelve years later, in a 2014 GMAC corporate survey of 565 MBA employers, the top skills companies demand from new MBA hires are similar and are still primarily basic management skills such as communication, listening, written communication, presentation, and adaptability skills (GMAC, 2014b).

Critics assert that MBA programs provide little use in the real business world and are especially lacking in on-the-job experience in leading and managing others (Doria, Rozanski, & Cohen, 2003; Mintzberg, 2005; Pfeffer & Fong, 2002). “Without a larger clinical or practice component, it is not clear that business schools ever will impart much lasting knowledge that affects graduates’ performance” (Pfeffer & Fong, 2002, p. 9).
Curriculum and Learning

Porter and McKibbin’s 1988 study identified six features (as identified by Navarro, 2008) of an ideal MBA curriculum: 1) multidisciplinary integration, 2) experiential learning; 3) soft-skill development, 4) global perspective, 5) information technology focus, and 6) ethics and corporate social responsibility. The survey of the core curricula of the top 50–ranked business schools in the United States suggests that, for many schools, “the ideal curriculum remains far more of a normative construct than a positive reality” (Navarro, 2008, p. 109).

Today, the required curriculum for most business schools still mirrors the set of courses identified by the Ford and Carnegie reports of 1959: marketing, finance, accounting, economics, management, statistics, and business law (Khurana, 2007). Many schools have changed their elective offerings through the years to respond to changing market trends by adding such courses as international business and leadership. More recently, given the growing amount of data being gathered in the digital age, many business schools are teaching students to use data and models to support decision making in business (Allen, 2014). These specialized courses allow schools to create a product differentiation or “brand identity” (Navarro, 2008).

Equally important to which subject is being taught is how the material is taught. Traditionally, business schools use lecture, the case method, or a combination of the two. More recently, some schools engage students more directly in the learning process (Khurana, 2007; Starkey & Tiratsoo, 2007; Thomas, Lorange, et al., 2013). Schools have begun to teach through a more clinical method of experiential learning
where “concrete experience is the basis for observation and reflection” (Kolb, 1974, p. 21). The focus for learning is on doing and the reflection of the direct experience to construct new knowledge, skills, and attitude (Baden & Parkes, 2013; Dewey, 2007; Kolb, 1984). Adults engage in problem-centered, rather than subject-centered, learning, and they require time to contemplate and integrate the implication of the material to their experience and responsibilities (Tusting & Barton, 2003). Instead of being passively taught, students actively engage in the process of learning whereby they can integrate their experiences and apply knowledge to a situation. “The practice of management is best taught as a craft, rich in lessons derived from experience and oriented toward taking and responding to action” (Baily & Ford, 1996, p. 9).

In 1990 University of Michigan’s Ross School of Business designed a unique and revolutionary program called Multidisciplinary Action Projects (MAP). In the spring of their first year, students spend seven weeks solely focused on working with a client on their business problem (Ross School of Business, 2015). One of the hallmarks of Ross School of Business, the program has been well received by students and employers, although it requires substantial resources and time in the curriculum. The University of Michigan was a leader in experiential learning and paved the way for other business schools to experiment with this form of teaching and student learning.

Many other schools have incorporated experiential learning on a smaller scale through curricular or cocurricular activities, such as service learning projects, capstone projects, or management practice class. Schools such as Berkeley’s Haas School of
Business, Emory University’s Goizueta Business School, and Northwestern’s Kellogg School of Management have all integrated experiential learning into their curriculum. Although experiential learning is becoming more prevalent, many faculty members do not have the practical experience to teach these classes comfortably (GMAC, 2013). Faculty tends to teach the way they were taught, through lectures.

**Business Schools Today**

Albeit many of the core elements of curriculum and teaching for the traditional MBA program seem frozen in time, the landscape and the competitive pressures today are vastly different. Hypercompetition, declining student interest, lack of resources, and technological changes have rewritten the context in which business schools operate.

Business schools are now educating global citizens to work effectively in an increasingly complex and global business environment. Today, there are 727 AACSB-accredited business schools, with 515 in the United States (AACSB, 2015a). This number does not include unaccredited schools, U.S. business schools that are accredited by another body, or international schools affiliated with other accreditation bodies in Europe and Asia. In China alone, the number of MBA programs grew from nine in 1991 to around 250 in 2013 (Thomas, Lorange, et al., 2013). By 2020, China is forecasted to have the world’s largest single economy, and India is expected to exceed China by 2050 (Thomas, Lorange, et al., 2013). Remaining competitive in the
global marketplace requires a workforce that understands and can operate in this changing environment.

In addition to the growing number of MBA programs globally, schools have created different products such as the part-time MBA, executive MBA, online MBA, specialty master’s, and executive education to capitalize on the growing MBA market. Business schools are increasingly looking to pre-experience, specialty master’s programs as another source of revenue, even though this is counter to what scholars have suggested through the years (Gordon & Howell, 1959; Khurana, 2007; Mintzberg, 2005; Porter & McKibbin, 1988). In 2014 there were 397 schools offering 32 full-time, specialized master’s with more than 92,000 students enrolled and 28 part-time specialized master’s programs with 47,990 students enrolled within the AACSB membership schools, and these numbers are expected to grow (AACSB, 2014). With the proliferation of substitutes, the traditional two-year program now only accounts for 23% of the MBA enrollment in the U.S. and only 17% of MBA enrollment in other countries (AACSB, 2015b).

The interest in specialized master’s programs has increased, further reducing the pool of applicants interested in an MBA. According to GMAC’s World Geographic Trend Report 2009–2013 (2014c), even though the number of GMAT (the standardized test required for most business schools) test takers in Asia grew by 50%, the overall number of GMAT test takers worldwide has steadily declined by 10% from 265,613 in 2009 to 238,356 in 2013. The number of GMAT test scores sent to U.S. schools also has dropped by 21% from 628,654 to 498,914. In 1998, 24% of GMAT
score senders to the U.S. were international. In 2013, that number grew to 50%, with 21% from China and 11% from India. The applicant pool for U.S. business schools has become smaller and more international. Today, MBA programs typically have between 30 to 40% international students.

This decline in the total population interested in advanced business education, and the MBA specifically, is alarming given that more business schools are competing for this shrinking pool of applicants. Though the full-time program enrollment at the top 20 MBA programs has remained relatively flat, and the part-time program has increased slightly, enrollment has fallen dramatically at other schools, and these schools are increasingly dependent on their part-time and other master’s programs (Datar et al., 2010).

The decline in students interested in the MBA has added to business schools’ resource woes. Along with the rest of higher education, the MBA has seen government funding decrease substantially through the years (Thomas, Lorange, et al., 2013). Business schools that have endowments saw an average 24% drop in value during the great recession (Palin, 2012). Even as most endowments have recovered, many schools are still feeling the impact given that they draw a percentage of their endowment fund’s average market value over a number of years. Faculty salaries consume 83% of the operating expenses, on average, for business schools, and that percentage is rising given the increased competition for leading professors (AACSB, 2015c; Nelson, 2015). Faced with declining revenue streams, most schools have increased their tuition by about 33% on average from 2007 to 2011 (Nelson, 2012).
Tuition alone at a top MBA program can cost more than $120,000 (Terwiesch & Ulrich, 2014). There seems to be a consensus that there is little ability to continue to raise prices with such flat demand for MBAs (GMAC, 2013; Palin, 2012; Starkey & Tiratsoo, 2007). “The high-cost MBA model is not viable for the vast majority of schools. . . . Without the wealth of their better-endowed peers, second tier schools will be increasingly challenged to keep pace” (Palin, 2012).

The need for additional revenue along with technology advancements have allowed other indirect substitutes to develop. Not-for-credit MBA classes are offered as Massive Online Open Courses (MOOCs) for free or at minimal cost. Enough of these courses are being offered that there are companies such as Coursetalk.com, which aggregates reviews of MOOCs from 500 schools—including Harvard, MIT, Stanford, and University of Pennsylvania—and lists more than 38,000 courses hosted by 57 providers in 2015. There are even sites such as www.nopaymba.com that can create a free “MBA” from MOOCs. Although MOOCs are still in the developmental phase, they are quickly garnering support from prestigious schools such as Harvard Business School, Wharton School of Business, and the University of North Carolina Keenan-Flagler School of Business, which are developing MOOCs for MBA core classes (Clarke, 2013). Technology has transformed access and cost to knowledge and may alter education as we know it today.

Richard Lyons, dean of the University of California–Berkeley’s Haas School of Business predicted that half the business schools in the U.S. could be defunct in five years, and the likely disruption will be technology (Byrne, 2014a). Programs such as
Virginia Tech and Miami University already have exited the full-time MBA market, followed by Wake Forest, a top 50–ranked program in 2014 (J.L.H.D., 2014). The pressures facing business schools have many predicting that the MBA model cannot continue as is and that it is ripe for change (Datar et al., 2010; Howard & Peters, 2012; Mintzberg, 2005; Pfeffer & Fong, 2002; Spender, 2014; Thomas, Thomas, et al., 2013).

History shows that business schools can adapt to the environment. They will seek out ways to distinguish their offerings but will not step too far away from accepted, legitimate models, partly due to inertia but also to potential negative changes in their rankings (Gioia & Corley, 2002). How they will respond to this unprecedented time of environmental change and market pressures may determine if they will succumb or triumph.
CHAPTER 2: A ROLLING BOIL

The Business Model of Business Schools

It was not that long ago that the full-time MBA program was the core program of graduate business schools. Many universities started business schools because of increasing market demand and the revenues the program could contribute to the overall university balance sheet (Daniel, 1998; Starkey & Tiratsoo, 2007). Things were great. Tuition was high and yet students were happy because they graduated with jobs that could help them pay off their student loans and put them on an entirely different career trajectory. In fact, even as recently as 2007, Johns Hopkins University—considered by many the first research university in America—launched its Carey Business School, thereby contributing to the continual rise in the number of business schools globally.

Competition increased as more schools jumped in. Business schools began to compete for the best candidates by offering scholarships. Today, schools spend millions of dollars on scholarships to recruit smaller and smaller classes. Poets & Quants, a leading publication devoted to covering business school news, estimates that the top 25 MBA programs awarded more than $230 million in scholarships in 2014 (Baron & Allen, 2014). Even programs ranked outside the top 25, such as Rice University’s Jones Graduate School of Business, gave out scholarship support equal to 59% of the school’s tuition revenue in 2014 (Baron & Allen, 2014).
For many schools, this created tremendous pressure on the economics of delivering the program. Many developed other revenue streams through part-time programs, executive MBA programs, executive education, and—more recently—specialized master’s programs to cater to increasingly fragmented student needs, generate additional revenue, and help subsidize the full-time program. Alison Davis-Blake, the dean of University of Michigan’s Ross Business School, noted, “The segment of the market that is healthy is quite small. Many schools have been subsidizing their full-time MBA programs for years, but now many have programs that are so small they have crossed the line of academic as well as economic viability” (Bradshaw, 2015).

Today, full-time programs are loss leaders for many business schools, yet they are still considered the flagship program of the ranked institutions. The full-time ranking showcases the quality of the school and creates a halo across all its programs. All but one business school ranked in the top 50 by Poets & Quants offers programs in their portfolio other than their full-time MBA program (see Appendix 8). Dartmouth University’s Tuck Business School is the sole institution that has only a full-time MBA program. Harvard Business School has the next fewest with three-degree programs (full-time MBA, executive MBA, and PhD) and a nondegree executive education program. It seems that the farther down the rankings list, the more programs a school tends to support (see Appendix 8). Temple University’s Fox Business School, the 50th-ranked school by Poets and Quants, has a whopping five variations of the MBA programs, 13 specialized master's programs, three variations of
the undergraduate business program, two variations of the doctorate program, seven nondegree certificate programs, and an executive education program (Temple University, 2015). As Della Bradshaw, longtime editor of the *Financial Times’* Business Education section writes, “For many institutions outside the top cadre of around 20 schools, it is survival, rather than the nuances of the curriculum, that occupies minds” (Bradshaw, 2015). Peter Fader, a tenured faculty member at the Wharton School of the University of Pennsylvania, noted:

> We are already seeing MBA programs drying up and going away. We are already seeing [business schools] out of desperation moving to all these very specialized masters, you know like master's in marketing analytics on the hopes that they are less likely or less quickly to be crushed by some MOOC-y kind of thing. At the bottom and even in the middle tier we are hearing a lot of prestigious state schools that are facing a lot of pressures. It will eventually trickle its way up to us too, but I like to believe that it will take much, much longer. You know, there is always going to be the kind of the cream of the market we can rely on and some of the things that we are doing, like the MOOCs (Massive Open Online Courses), that are crushing those other schools will actually be good for us. It's basically, you know, a few schools who are going to survive and prosper and we will definitely be one of them.

**The Possible Paths**

With a shrinking market, high costs, and questions about the viability of the MBA degree, there seem to be three obvious paths to survival. One is to exit because the market is overcrowded and competition is too fierce. Doing so would allow a school to redeploy its resources and look for more inviting waters. Schools such as Wake Forest and Virginia Tech already have shut down their full-time MBA programs and have redirected their efforts to their part-time MBA and specialty master’s programs.
Another option is to assume, or hope, that the market changes are simply a fad. Interest in business education has ebbed and flowed in the past. Many naysayers have sung the doomsday song for business education, and this could be just another of those chants. Dan Turner, associate dean for MBA Programs at the University of Washington’s Foster School of Business, shared that idea at a recent advisory board meeting. He presented several quotes about the MBA and how it was cratering, saying, “These quotes were from *The Wall Street Journal* from 1985 and the world didn’t end, there weren’t three business schools left. . . . There is a fair amount of inertia in what we do but [incremental] improvements will continue to be made.”

The third path is to decide that the market is indeed changing and that incremental improvements to what was done in the past will not be sufficient in the future. Some schools have created different versions of the MBA such as the University of Illinois’s $20,000 stackable iMBA, where one can begin to take the MBA classes offered free online (Byrne, 2015d). If the student chooses to get the MBA certificate at any point, he or she can apply for admission and pay $20,000 for the degree. Arizona State University’s W. P. Carey School of Business is taking a different approach by offering the entire entering fall Class of 2016 full tuition to generate interest and build their program (Faller, 2015). Schools such as University of Illinois and Arizona State are trying new approaches to address a changing market. Business schools seek to be unique and individualistic but, in fact, are quite similar.
The Resistance

Much has been researched and written about institutional theory that seeks to explain how institutions embrace change. In a mature market such as business schools, there is a push toward homogenization or isomorphism (DiMaggio & Powell, 1983). Institutions conform to the rules and norms of the environment (Powell & DiMaggio, 1991; Weerakkody, Dwivedi, & Irani, 2009). The more constraining the environment, the fewer degrees of freedom. An organization may lose its legitimacy when it moves away from the established norm.

For business schools, there are at least two big constraining factors: accreditation and rankings. Schools are simultaneously trying to make incremental changes to improve or maintain their standing in the rankings but not make dramatic changes that will call into question their legitimacy. These constraints explain why the frogs stay in the pot even as the water starts to heat up.

Although higher education is a constrained environment, innovation and adaptation regularly occur within it, especially at business schools. Clayton Christensen, a leading researcher who has published several influential books on innovation, says that there are basically two types of innovation—sustaining and disruptive. Sustaining innovation is when an incumbent makes a good product better in the eyes of the existing customer, such as the fifth blade in a razor blade or better mobile phone reception (Christensen, Raynor, & McDonald, 2015). Business schools continuously have developed and implemented sustaining innovations. They have, through the years, continued to tweak the MBA product by developing new
knowledge, improving the curricular and cocurricular offerings, and strengthening support functions such as career services and program offices. Of course, when sustaining innovation is developed, other schools rapidly will adopt the innovation so that they remain competitive, bringing homogeneity back to the group.

The other type of innovation is game-changing. “Disruptive innovation is more of a process whereby a smaller company (or division) with fewer resources is able to successfully challenge established incumbent businesses” (Christensen et al., 2015, p. 3). They begin by targeting an overlooked segment or creating a new market by offering a product perceived as inferior at a lower price. For years, higher education did not take seriously institutions that were delivering online courses and degrees. These typically for-profit companies, such as the University of Phoenix, which provided degrees and, more recently, technology companies that provided MOOCs reached a different audience from the traditional student base. Now, business schools are beginning to take notice as schools such as the Wharton School are offering MOOCs and University of North Carolina Keenan-Flagler, Carnegie Mellon’s Tepper School of Management, and University of Southern California’s Marshall School of Business have launched their online MBA programs. Geography and time zones no longer constrain these schools. They are reaching a new population of students who were previously unavailable to them. They are experimenting with innovations and lending credibility to new models.
The Cliques

To be clear, changes in the market are not affecting all business schools equally. Where a school is ranked has implications for how it is affected. Rankings are increasingly used as a surrogate for the quality of a program (Gioia & Corley, 2002).

There are at least four distinct cliques: super-elite, striving-elite, competitive, and noncompetitive. The super-elite group includes the schools that are typically in the top 10 of any business school rankings. They are on the cool side of the stove where the water is perhaps at a simmer. These schools include household names of the elite higher education institutions, such as Harvard Business School, Stanford Graduate School of Business, University of Chicago’s Booth School of Business, the Wharton School of the University of Pennsylvania, Northwestern’s Kellogg School of Management, Columbia Business School, MIT Sloan School of Management, University of California–Berkeley’s Haas School of Business, Dartmouth’s Tuck School of Business, and Yale School of Management (Byrne, 2015e). These are prestigious, highly selective, research-intensive schools with well-respected global, Ivy League, or Ivy-like brands.

These super-elite schools are in an enviable position with powerful institutional and business school brands, strong and stable tuition revenue, alumni giving, and endowment, and superstar faculty who are productive in research and in the media. These super-elite schools compete with each other for the best faculty and the best students. A degree from any of these schools can open doors and be life-
altering. The network and instant credibility these institutions convey to students and faculty provide them a steady stream of applicants. In 2015, there were 51,735 applicants for 5,589 total seats at the top 10 institutions (Byrne, 2015a). These top programs have more than 300 students per class, and the top three programs have more than 700 students per class (Byrne, 2015e). Super-elite schools have little pressure to change their model drastically given that the value of their brand and their financial position can help them to weather most change. Other business schools and the market, in general, look to these schools for legitimacy in the marketplace. They have the most resources and the greatest ability to reshape the MBA but little reason to change.

On the other side of the stove are the hundreds of schools that are essentially non-competitive. These schools are less prestigious and ranked below 40. Their full-time programs are much smaller, averaging less than 50 students per class. These schools have expanded rapidly to serve those who want convenience and flexibility by launching shorter MBA formats, online MBAs, specialized master’s programs, and certificate programs to meet student demand more effectively. The majority of their students are enrolled in a part-time MBA or specialized master’s program catering to the working professional—people with less experience and/or focused career goals. For example, in 2014, the University of Texas–Dallas graduated 56 students from its full-time program, 269 students from the part-time program, and 1,267 students from

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1 This average was developed by using AACSB program size data and removing the top 40 programs as ranked by the 2015 Poets & Quants Top 100 U.S. MBA Programs survey.
the specialized master’s program (AACSB, 2014). Schools such as the University of Texas–Dallas have been quick to adopt technology or new models to meet their students’ demand for convenience and lower tuition as well as to lower the institution’s costs to deliver the education.

The two remaining groups comprise schools ranked between 10 and 40. Though this is a narrow range, these two groups are in very different circumstances and face different pressures. The first are the striving-elites, typically ranked from 10 to 15. These schools are highly regarded research institutions with business schools that have strong endowments, enrollments, and brand. Examples include Duke University’s Fuqua School of Business, University of Virginia’s Darden School of Business, University of Michigan’s Ross School of Business, University of California–Los Angeles’s Anderson School of Management, and Cornell University’s Johnson Graduate School of Management. Although they strive to be consistently in the super-elite clique and may occasionally appear in the top 10 ranking for various publications, these schools are firmly in the top 15 set. They have a solid resource base and healthy class sizes of anywhere from 300 to 400 students per class.

The next set of business schools fall into the competitive group and are typically ranked from 15-to-40. Examples include New York University’s Stern School of Business, University of North Carolina’s Kenan-Flagler Business School, Carnegie Mellon University’s Tepper School of Business, University of Texas–Austin’s McCombs School of Business, and Emory University’s Goizueta Business School (see Appendix 3). They are not in the elite group but are certainly considered
quality research institutions that are well regarded and competitive. These schools are trying to improve their standing in the rankings by competing for the best students and investing in their faculty and facilities. Many of these schools in the 15-to-40 range aspire to be higher ranked. Moving up in the rankings requires scholarships to attract stronger students and investment in student services, faculty, facilities, and marketing to build the school brand. The challenge most of these institutions face is limited resources to make these investments. Although these schools are well known, they are typically tuition-dependent for their operating budget and have little in reserves for investment. Even for schools that may have completed recent fundraising campaigns, the monies are plowed into scholarships and supporting the daily operating expenses. Naturally, some schools are better off than others, and excess resources enable experimentation, but few schools have such luxuries. The competitive schools are centered over the stove and feel the heat. They are in a very small and crowded pot with each one jockeying for a better position.

Observing how these schools might respond is perhaps the best indication of what may happen to the full-time MBA program and, more broadly, business schools. These schools have the most at stake regarding their actions or inactions. Market pressure will affect every group to varying degrees, but it will undoubtedly affect the competitive group most. How will they react to innovation in the marketplace? Will they innovate to stay competitive and improve their positioning? Those who notice the more crowded and warming waters may jockey for a better position. Those who
do nothing will inevitably become *grenouille bouillie* (boiled frog). To avoid that fate, a business school needs to get moving.

**The Experiment**

Business schools instruct students that, in today’s competitive environment, companies must be able to adapt and quickly respond to changes in the business environment. Even though business schools realize that the environment is shifting and that the full-time MBA program sits precariously, they have changed very little. Transformation associated with disruptive innovation occurs as a process and not a “cataclysmic event” (Christensen, 2006). Albeit it is still early and a clear model (or models) have yet to be established, to understand how proactive schools are thinking about the changing environment and their approach to the business model can provide insight into how the full-time MBA may be reshaped. As Mintzberg says, “Some patterns are worth watching until their effects have more clearly manifested themselves. Then those that prove useful can be made deliberate and be incorporated into the formal strategy” (1987, p. 75).

Recent innovations from two super-elite schools were identified and used as a stimulus to see how four schools ranked in the competitive group (15-to-40 range), based on the 2015 *Poets & Quants*’ Top MBA Program survey\(^2\) (see Appendix 3), might respond. The most effective way to discover this phenomenon was through

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\(^2\) *Poets & Quants*’ Top MBA Rankings is a ranking of MBA programs that are based on a weighted average of the five most influential business school rankings: *Bloomberg BusinessWeek, The Economist, Financial Times, Forbes,* and *U.S. News & World Report.*
qualitative research based on interviews with business school leaders, senior administrators, and faculty, as well as secondary research. Though the innovations studied are different, there is much that can be gleaned from studying the reactions of these four schools to these two innovations. This research can help business school leaders and faculty better understand the institutional strategy of other schools, perhaps shed light on how different models of innovation can affect their organization, and provide some clues for how best to move forward.

The two innovations studied came from super-elite schools, the Wharton School of the University of Pennsylvania (Wharton) and Yale University’s Yale School of Management (Yale SOM), which lent credibility and legitimacy to the innovation (DiMaggio & Powell, 1983). On first glance, Wharton and Yale SOM had little incentive to develop innovations and subsequently incur the organizational conflicts and change management resulting from any such innovation. However, it is clear that even these super-elites were worried about the changes to the industry and thus created experimental pathways and options for future growth.

To understand the potential for an innovation to transform the full-time MBA, these two stimuli were presented to four business schools in the competitive group for their reaction: Georgia Institute of Technology’s Scheller College of Business (Scheller), Georgetown University’s McDonough Business School (McDonough), University of Southern California’s Marshall School of Business (Marshall), and University of Washington’s Foster School of Business (Foster). Each of these schools believes that they should be ranked higher than they are and is striving to improve its
position. As Dean David Thomas from McDonough suggested, “Every [business school] in the top 30 thinks they should be in the top 10.” These schools all agree that the industry is changing and that there will be some consolidation. However, they also agree that there always will be a market for the full-time, in-person experience. This research seeks to identify the characteristics of business schools that will respond to innovations, the capability for each school to move forward in its market, and their risk profile of engagement. Specifically, this research seeks to answer the following questions:

1. Why did these leading institutions launch the innovation?
2. How credible do other institutions view these innovations?
3. Does changing the business model change the education model for the full-time MBA?

The responses of these four schools, while not fully generalizable to the broader business school community, may provide some insight as to the likely drivers in the marketplace, considerations for change, new models that may develop, and barriers to anticipate. Business schools historically have focused on incremental innovation. Although these incremental innovations have helped the industry stay afloat especially when there has been breathing room between the waves of change, the waves are coming faster and on a larger scale. Not all institutions will want to respond or be able to do so. This study can lend some insight into when business schools might be willing to consider a change to be able to respond more effectively to this evolving industry.
CHAPTER 3: THE STIMULI

Wharton and Yale SOM are two highly regarded institutions that have each taken very different paths toward establishing themselves as global powerhouses in management education. Both schools have the resources and brand power to shrug off most market changes, but they continue to innovate to strengthen their brand, inform how they teach in their degree programs, and develop new markets and revenue streams. Their recent innovations could have major implications for other business schools.

Wharton Business Foundations Specialization

The Wharton School of the University of Pennsylvania was founded in 1881 in Philadelphia and is the oldest business school in the United States. The school only has three degree programs: an undergraduate business program, the master of business administration in a full-time and executive format, and a PhD program. In addition to the three degree programs, Wharton has a robust executive education business. The Wharton School is consistently ranked in the top five in all of their degree programs by most surveys. Wharton is very selective in each of its programs. The school is financially stable, boasting one of the largest endowments of any business school. It also has a large and robust student body. Each full-time MBA class at Wharton numbers around 800 students, each with a strong student profile. Renowned as a
finance school, 35 percent of Wharton’s MBA graduates routinely depart for Wall Street.

**The Instigation**

Wharton seems like an unlikely candidate to launch an innovation that could potentially disrupt business education because it simply was not necessary—that is, until the financial crisis hit in 2008. When Lehman Brothers collapsed, Dean Tom Robertson called a special meeting of the faculty to ask one question, “How much of this was our fault?” After some discussion about which business school supplied more students to Wall Street, a faculty member suggested that the question was incorrectly stated. He rephrased the question as a multiple choice where only one answer could be selected: A) part of the troubles that just happened to the world economy are our fault, or B) we are largely irrelevant. The faculty decided that the right answer was A. Dean Robertson asked Karl Ulrich, an entrepreneur and scholar who studies innovation and product development, to form a project team—the Wharton Innovation Group—and determine how best to move forward. The team solicited ideas from the enterprise on how the school could do its work better. Through a filtering process, they went from a few hundred ideas to a handful of exceptional ones.

Engaging with MOOCs was one idea that rose to the top. It also happened to align with the direction of the university. Don Huesman, managing director of the Innovation Group, shared the school’s five goals for advancing education online:
1. To advance Wharton’s social mission by reaching more students and sharing knowledge.

2. To develop capabilities and know-how in technology to improve the experience for students in the degree programs.

3. To address the needs of Wharton’s executive education clients and lifelong learning.

4. To build Wharton’s brand as the authoritative source of knowledge about business.

5. To generate new cash flow in the programs.

Wharton began offering the public free, noncredit-bearing management classes, taught by Wharton faculty, on the Coursera platform in 2013. Since then, Wharton has had more than 2.7 million unique learners from all parts of the world enrolled in one of 18 Wharton MOOCs and largely fulfilling the initiative’s social mission (Byrne, 2015b).

Wharton also has begun to leverage these new developments to serve its MBA program students better. Roughly 10% of Wharton’s faculty now teach in these online classes. These faculty members are bringing their knowledge of this new teaching method into their traditional classes. Additionally, some of the content developed for the MOOCs is being provided to executive MBA students before classes start so that more time in class can be spent on discussions and application of the material.
The Wharton Innovation—Wharton Business Foundations Specialization

Wharton launched the Wharton Business Foundations Specialization in April 2015. It is a series of four online, noncredit-bearing, MBA foundational courses in accounting, finance, marketing, and operations management taught by some of the same faculty who teach those classes in its full-time MBA program. After completing all four courses, participants can elect to take a capstone course that provides an experiential project with companies such as Snapdeal and Shazam.

The four foundational courses are free, but to receive a Wharton Business Foundations Specialization certificate verified by Coursera requires a fee of $95 per class. The final experiential learning capstone project requires successful completion of the four foundational courses and a fee of $215. The entire Wharton Business Foundations Specialization certificate is $595. This is a very low-cost option to get the core MBA content from Wharton faculty. In a span of six months since its launch, Wharton has awarded more than 54,000 Business Foundations Specialization certificates. To encourage talented individuals who have taken the foundations series to apply to the school, Wharton will waive the application fee for the top 50 learners to the MBA program. If admitted, the top five students each will receive a $20,000 scholarship.

Although Wharton is already a globally recognized business school, “there are still people who have no idea who we are,” acknowledged Huesman. Through this online initiative, Wharton can expand its reach and offerings. The school has made available a Chinese version of the same Business Foundations Specialization
certificate and launched a Marketing Analytics Specialization certificate. Wharton expects to launch more than two dozen new online offerings within the year.

In just three years, more than 25 times the Wharton alumni base have taken a Wharton MOOC. In six short months since launch, more than 30 times the number of students in the current Wharton MBA program have taken the Business Foundations Series online. After the revenue share with Coursera and royalty payments to faculty, there was still $5 million new revenue to the school in 2015. Additionally, this expansive reach is helping Wharton build and strengthen its brand and develop expertise with online delivery.

Senior faculty who teach in the MBA program typically teach these foundational courses. Faculty work with instructional designers to bring their courses online. They are not given any course release but receive a 10% royalty every time their course runs. Not all faculty are a good fit for this medium of delivery. Anne Trumborne, the director of Wharton Online, says not every faculty member has “the Q-factor” or the ability to connect with an audience online, but she estimates that about ten percent of the Wharton faculty have already created online modules.

The Risk

Wharton has long held the distinction of having one of the better full-time MBA program in the country, if not the world. Given the position of its full-time program, the school is careful about substantial experimentation, as it may jeopardize its position. Much of Wharton’s new development has occurred in other programs,
such as the San Francisco location of its executive MBA program and the Wharton-INSEAD alliance, which encourages mutual collaboration between the two programs. One of the goals of moving into online education is to develop capabilities and know-how in technology to improve the experience for students in the degree programs. Perfecting online delivery in its MOOCs allows Wharton to bring that expertise to the full-time MBA program with less risk. However, this strategy did not come without objections.

When Wharton first announced that it would be offering the Business Foundations series, some alumni were up in arms. Don Huseman frequently had to respond to alumni asking, “What are you doing giving my degree away online?” Alumni were concerned that the innovation would dilute the Wharton brand and devalue their degree. Huseman shared that this was not a new issue for Wharton:

I had to remind them that Wharton has been offering Executive Education for many years, and people who attended a four-day class would put on their resume they attended the school. . . . We have 92,000 alumni still alive, and they don’t agree on anything. If we don’t do something in [the online space] they will be mad. If we do something in this space, they will be mad, so we need to figure out on our own [whether] what we are doing makes sense or not.

Howard Kaufold, vice dean of MBA Programs, shared a story of a panel discussion on online learning that took place at the University of Pennsylvania a few years back that included President Amy Gutmann, Provost Vincent Price, and the op-ed columnist for the New York Times Tom Friedman. Kaufold recounted that Friedman remembered when the Internet started to take off, people at the Times thought they did not have to worry because they were the Times. The tsunami hit them all the same and the adjustments were very painful. Friedman cautioned
President Gutmann, “Just because you are a very well-known and well-positioned Ivy League school, you should not feel that you are immune to what is happening and what is coming.” Although there was some risk that Wharton’s venture into online delivery methods could affect its brand, it seemed manageable compared to the alternative of not moving forward.

The Business Model Effect and Potential for Disruption

There are at least two possibilities for Wharton’s innovation to have a substantial impact on the full-time MBA. One is similar to what is already occurring at Wharton in the executive MBA program by incorporating the material developed for the MOOCs in the MBA curriculum. The popularity of the Wharton MOOCs has not gone unnoticed. A few schools in the United States have approached Wharton about using segments of the MOOCs in their MBA curriculum. Instead of developing their own materials and incurring the associated costs to create and maintain the content, they could use portions of the Wharton Foundations Series MOOCs that already have been developed to augment their curriculum. This model is similar to how textbooks are being used today but delivered via technology with interactive assessments along the way to ensure that the material is understood. Huesman believes that MOOCs can raise the bar for face-to-face education.

What we are doing is using technology to get the low value, one-way transmission of knowledge outside of the classroom. It is dumb to have a faculty member stand up in front of a class and deliver a lecture today. If we get that out of the classroom, all kinds of interesting things can happen in class. It can free up faculty time so they can craft learning experiences with students that are truly life changing.
This new classroom construct is already under way in the international market.

Wharton is packaging the series of MOOCs and working with a partner to sell the content to universities abroad to use in their curriculum.

Taking this new construct one step further, business schools can allow students to take the Wharton Business Foundations Series or a similar set of core MOOCs to apply to their core class credits, in essence taking the MOOCs as transfer credits, or to take the exams to opt out of core classes. Incorporating MOOCs potentially could reduce the time and costs required to obtain an MBA degree. Having students who have taken a common set of MOOCs also could allow faculty to teach to a group of students with less variability in core knowledge and spend more time engaging the students and teaching more complex concepts. Schools would be able to focus on delivering a curriculum that can better leverage the expertise of its faculty and provide more differentiation. As Huesman puts it:

Rather than have faculty drone on for the fourth time today in a lecture, if we can introduce efficiencies into the regular degree program . . . facilitated by our online capabilities, and then our scarce resources and most expensive resources, which in most cases are faculty time, they actually can go into the room and do what they can do best face-to-face when you interact very intimately. To use Dean Geoff Garrett’s phrase: you can set young minds on fire.

Yale School of Management—Global Network for Advanced Management

Yale University was founded in 1701 and is the third-oldest higher education institution in the United States. The school began to offer courses in organizational management in the 1950s and formed the Yale School of Management in 1976 when it
began to award a master’s degree in public and private management. It was not until 1999 that Yale SOM began offering an MBA degree. Yale is by far the youngest business school in the upper echelon of schools. Yale SOM’s mission is to educate leaders for business and society.

Yale SOM does not have an undergraduate business program. It offers a full-time and executive format of the MBA and the PhD degrees. Boasting one of the smaller class sizes in the top 10 MBA programs, Yale graduates about 300 full-time MBAs per class. In 2013, Yale SOM launched a master’s of advanced management (MAM) degree that is a one-year program for graduates of business schools who are members of the Global Network for Advanced Management (GNAM) to deepen their knowledge of management issues. Since its launch two years ago, the MAM program is already topping 60 students per class.

Yale SOM is known for its unique approach to business education and for launching leaders in the public and nonprofit sectors. In 2006, the school moved away from the traditional functional teaching approach to an integrated, multidisciplinary, problem-based approach. Courses are team-taught and from the perspective of the constituents, such as employees, customers, investors, and competitors (Datar et al., 2010). This integrated approach was a revolutionary change in the MBA curriculum. Other schools tried to launch similar efforts, but the challenge of cross-functional collaboration and the cost of having multiple faculty members assigned to a single course were too great. The success of this model can be attributed to the unique philosophy of openness and access to the university. At Yale, every department allows
students from any discipline to take courses from their school without transferring tuition. There is no limit to the number of courses one can take from another school and there are no financial consequences (Byrne, 2014b). Faculty from different disciplines will often trek across campus to teach at another school. The university and administration operate under the assumption of “good intentions.”

The Instigation

Even with this innovative curricular change and the prestigious Yale University brand, Yale SOM was a lesser-known business school that did not have the history and size of many of the super-elite programs. In 2012 Yale was able to entice Ted Snyder to join the school. Known as a “turnaround specialist,” Dean Snyder previously led University of Virginia’s Darden Business School and University of Chicago’s Booth School of Business and was able to help raise the profile of both programs (Middleton, 2010). Snyder believed that Yale SOM could be a much stronger school. He increased the funds for scholarship and faculty recruitment and began to build closer ties with the university through developing dual-degree programs and joint faculty appointments (Byrne, 2012). These efforts helped but are table stakes and easily imitated by other schools with financial resources. To move its position in the rankings would require a successful, bold move because while there is movement within the top 10-ranked schools, rarely is an outsider able to break into that group.
The Yale SOM Innovation—Global Network for Advanced Management

Snyder believed that business schools were laggards in understanding how to globalize beyond simply partnering with other schools for study abroad or joint-degree programs. “We made it our goal to become the most global U.S. business school,” says David Bach, senior associate dean for Executive MBA and Global Programs. In 2012, Yale SOM, along with 24 business schools around the world, created GNAM. Each one of these business schools is a top school in its country. GNAM slowly has added to its network of schools, with the most recent addition being Haas School of Business at University of California–Berkeley, bringing the total to 28 schools in the network. Todd Cort, a professor who teaches a GNAM course, shared that “Dean Snyder has this vision that the GNAM can be this enormous power for furthering our core goals particularly around integrated curriculum and integrated research opportunities.”

3 The 28 member schools are Asian Institute of Management (The Philippines); EGADE Business School; Tecnológico de Monterrey (Mexico); ESMT European School of Management and Technology (Germany); FGV Escola de Administração de Empresas de São Paulo (Brazil); Fudan University School of Management (China); Haas School of Business; University of California–Berkeley (USA); HEC Paris (France); Hitotsubashi University; Graduate School of International Corporate Strategy (Japan); Hong Kong University of Science and Technology Business School (China); IE Business School (Spain); IMD (Switzerland); INCAE Business School (Costa Rica, Nicaragua); Indian Institute of Management, Bangalore (India); INSEAD (France, Singapore); Koç University Graduate School of Business (Turkey); Lagos Business School; Pan-Atlantic University (Nigeria); London School of Economics and Political Science; Department of Management (United Kingdom); National University of Singapore Business School (Singapore); Pontificia Universidad Católica de Chile School of Business (Chile); Renmin University of China School of Business (China); Sauder School of Business; University of British Columbia (Canada); Seoul National University Business School (South Korea); Technion-Israel Institute of Technology (Israel); UCD Michael Smurfit Graduate Business School (Ireland); University of Cape Town Graduate School of Business (South Africa); University of Ghana Business School (Ghana); Universitas Indonesia Faculty of Economics (Indonesia); and Yale School of Management (USA).
GNAM schools have adopted the unique Yale philosophy of assuming good intentions and created an organizational structure that allows its member schools to share faculty, thought leadership, classes, projects, and students. Although there is no financial investment to join this network, all network members must commit to supporting the activities of GNAM. The network is unique because “it relies on diffused reciprocity as opposed to bean-counting. We don’t insist on equalizing the contribution in a very short-term and a very narrow way. This allows for the potential to create a structure that is very complementary and mutually enforcing,” says Anjani Jain, senior associate dean of the MBA Program.

GNAM members offer for-credit, synchronous elective courses to schools in the network through an online platform that allows for lectures, discussions, and group work. This network enables schools to provide a broader set of electives by leveraging the expertise at other schools. Schools in the network also provide students an opportunity to travel to another school within the network for a one-week intensive mini-course that takes advantage of localized expertise. The network facilitates knowledge development and sharing by bringing together professors and administrators interested in creating new curriculum and cases, sharing teaching approaches, and integrating the perspectives of business executives and other external thought leaders. Additionally, network schools can collaborate to create online case studies focused on global business problems, thus benefiting researchers at multiple schools. Schools can share their cases and teaching notes through a searchable directory. These activities provide network schools the ability to expand their
electives and other academic offerings, extend the network of relationships across schools and geography for students and faculty, and encourage cross-school research and collaboration.

Building on student interests in GNAM, Yale SOM launched a master’s of advanced management (MAM) degree, a one-year program open only to MBA graduates from the 28 GNAM schools. Its inaugural class in 2013 had 20 students and, most recently, the Class of 2015 had 63 students from 34 countries. The MAM program allows Yale SOM to pull from a captive pool of highly qualified students and provides a unique post-MBA offering.

The GNAM network also has provided other benefits for its member schools. Recently Yale, in collaboration with the World Business Council for Sustainable Development and GNAM, conducted a global climate change survey of GNAM business school students modeled after Accenture’s Global CEO climate change survey that was presented at the COP21 Paris Climate Conference. “We have perhaps tapped five or ten percent of the potential of the network. Success is when people look at SOM differently,” says Bach. Yale SOM is now solidly in the top 10 of MBA programs with an applicant pool improving in quality and number (Byrne, 2016a). In a recent *New York Times* article, it was singled out as the top U.S. MBA program to attend for a global education without leaving the country (McDonald, 2015).

For faculty, teaching a GNAM course is similar to teaching a traditional course in that the course counts toward their course load. The difference lies in the course content, student interaction, and potentially the number of times an elective can be
delivered; with a network of students, an elective may be offered more frequently than before. K. Sudhir teaches a global payments GNAM course and believes that “it’s a great model for a high touch class that requires certain unique ways of bringing together people from various parts of the world.” Cort agrees that a GNAM class allows for much greater interaction:

The original idea was to replicate a classroom online, all the ability to interact with the faculty or TAs and groups. Over the years, we’ve realized that technology can go beyond a classroom, so it is classroom plus. Students not only interact with a professor in real time and in a meaningful way, but they are also able to interact simultaneously with their groups or with the content on the website. That’s kind of the ability of technology to enhance the classroom.

Additional support is provided to help faculty develop online cases or “raw cases.” Given that students can be from any of the network schools, technology is used to interact in class as well as for office hours, teamwork, and individual and team assignments. GNAM courses also allow faculty to bring in speakers from around the world via technology. These courses provide an added benefit to faculty by letting them teach from any location, allowing them to continue their research or travel for conferences.

The Risk

Yale SOM was fully invested in making GNAM a success. It had set its sights on becoming the most global U.S. business school, and “the network is not one of the pieces of that strategy . . . it is the heart of that strategy,” says senior associate dean David Bach. To ensure the network was successful, Yale SOM provided substantial resources to fund various initiatives. The school has three people dedicated to
working on global initiatives, and their primary focus is on managing the various projects and activities, providing the infrastructure support for the global schools, and recruiting faculty from the partner schools to offer courses in the network. With the inevitable deanship turnover in the pool of partner schools, Snyder and Bach spend time at each of the GNAM biannual dean’s meetings educating new deans on the value of the network to maintain its stability.

GNAM is an ambitious undertaking. To get two schools to work together can be challenging, but to coordinate 28 schools can be downright unmanageable. “[The network] only happened because of Yale’s initiative, Yale’s leadership, and Yale’s resources. We would not have been able to do without the other schools and . . . are thrilled and grateful for their investment and collaboration . . . but Yale sets the pace and underwrites many of the public good you need to organize such a thing,” shared Bach. Today, Yale SOM is the glue that holds the network together but over time, Yale SOM hopes and expects the other schools to step up to define opportunities and provide investments, thus allowing the network to operate more like a true network.

The Business Model Effect and Potential for Disruption

The GNAM network allows schools to amplify what they can do for their students and faculty. Students have access to a wider range of courses that would not have been available to them before. Faculty can learn from, and partner with, peers from other institutions to develop research, expand their network, and teach electives in their area of research that might otherwise not have drawn enough students from a
single institution. Schools can offer a wider range of classes to their students without incurring the associated cost, participate in global activities, and add the network to its brand.

For schools that may be resource-constrained, have a limited student body, or be unable to attract the caliber of faculty they desire, this innovation may allow schools within a network to share classes to provide breadth and depth in their offering while minimizing the associated costs. In a network model, a broader set of electives can be offered to students. Core classes can be reenvisioned to include across-network teamwork and knowledge sharing. Faculty can teach classes with enough students that are aligned with their research area.

Taking this one step further, a business school potentially could focus on one or two areas that truly differentiate the school by hiring faculty and doing research in these fields and utilizing the network to supplement other areas. There potentially is a substantive strategic and cost advantage to being in a network. A similar model can be found in the airline industry. Airlines have formed networks such as the Oneworld and SkyTeam Alliance, where they can maintain or even reduce their capacity while increasing the number of routes offered by code-sharing flights with other airlines in the alliance.
CHAPTER 4: IMAGE MATTERS

Image is powerful. The brand Tesla conjures a vision of a technologically advanced, powerful, premium driving machine. A Honda sedan serves the same function in getting you from one place to another. If given the choice, however, some people always would choose the Tesla over a Honda, and vice versa, based on how consumers view their own status and the image they are trying to convey to others. These two companies will make different choices in product development and respond differently to the market based on their goals and positioning. Tesla is ready to launch a driverless car, yet it may be a while before we see that innovation from Honda. This difference in approach is also true for graduate business schools.

Each of the four schools interviewed for this research—Foster, McDonough, Marshall, and Scheller—has an image it is trying to cultivate, market, and protect. Although they are all ranked in the 15-to-40 range by most rankings publications and have similar goals to improve their position and their institutional spaces, their current position and the path that led them there has a clear influence on how they view innovation and the urgency with which they are willing to explore new models. A basic framework, shown in Figure 1, looks at rankings and enrollment, which might help explain a business school’s propensity to consider transformative innovations.
Rankings generally include a range of variables, such as quality measures of students (e.g., GMAT, GPA, diversity), student outcomes (e.g., employment, salary), student satisfaction with the program, recruiters’ views of the quality of students, faculty publications, and peer-reputation assessment. Each survey measures these variables differently and assigns a different weighting to each element. For the sake of simplicity, what matters is whether a school is moving in the direction aligned with its goals. The Poets & Quants ranking is a weighted average of the five most influential business school rankings: Bloomberg BusinessWeek, The Economist, Financial Times, Forbes, and U.S. News & World Report. Each school may focus on, and excel in, one ranking over another. To eliminate this bias, the Poets & Quants ranking is used for this analysis.
The other element of the framework is enrollment. Although selectivity and other student quality measures are typically included in the ranking, the size of the student body is not. The size of the program matters because it is related to the quality of the applicant pool (how prospective students view your program) and to the revenue contribution. As noted previously, business schools are tuition dependent (Howard & Peters, 2012; Nelson, 2012). Even if a business school continues to meet quality levels necessary to maintain its rankings by reducing class size, it is unlikely to be sustainable given that enrollment has a direct impact on revenue. Business schools are constrained by their physical infrastructure and their ideal cohort size; hence, there cannot be too much variability in enrollment size without adding additional student cohorts. To do so would require a substantial increase in faculty and staff costs. A stable or positive trend in enrollment means that the school is moving toward, or is at, its desired and optimal enrollment goals.

Even though many other variables influence how a school will respond, these two seem to stand out for business schools. Those that have healthy enrollment and stable or positively trending rankings are in a winning state and have little reason to take risky moves to consider innovations. They can sit back and wait to see what innovations will succeed at other institutions and then adopt those winning strategies. The challenge is not to lose a leading position by waiting too long.

Schools that have healthy enrollments but are struggling with rankings are revenue focused and may be in the process of reevaluating their priorities and repositioning the school. They may be experimenting with different innovations and
while the market (students) are seeing a positive trend, the rankings have yet to catch up. These schools also may have decided that their need for revenue is more important than their image—thus, they will pursue more students and sacrifice quality. The challenges these schools face are whether their new priorities ultimately will pay off.

Business schools with shrinking enrollment but a positive trend in rankings may be going after quality. As mentioned earlier, business schools may shrink their class size to improve their quality metrics—thus improving or maintaining their rankings—but this is rarely sustainable. These schools are open to considering change but may be constrained by resources.

As a business school’s class size and ranking fall, it is in danger and may be more willing to consider a strategic shift, thereby allowing innovations that may not have been considered previously in an effort to differentiate the school and break the downward spiral.

Figure 2 shows the Poets & Quants ranking movement for Marshall, Foster, McDonough, and Scheller from 2011 to 2015. McDonough has been relatively stable during the last five years; Foster has shot up in its standing; and Marshall and Scheller have experienced some ups and downs.
Figure 2: Poets & Quants’ Ranking for Select Schools, 2011—2015

Figure 3: Full-Time MBA Student Enrollment for Select Schools, 2011—2015
Figure 3 shows full-time MBA student enrollment trends since 2010 for Foster, McDonough, Marshall, and Scheller as reported in the *U.S. News & World Report* ranking. Both McDonough and Foster had a positive trend, Marshall had a slight dip but then experienced an upward swing, while Scheller has been trending down. Also, notice the substantial difference in the number of students supported by each business school; there is approximately four times the difference between Scheller and McDonough.

Based on the model presented in Figure 1, Foster is in the winning quadrant; McDonough is trending toward winning by growing its full-time program and now investing in innovation; Scheller is focused on quality at the expense of enrollment to stay in the game; and Marshall is pulling itself out of the danger zone by expanding its overall enrollment through special programs (see Figure 4).

![Figure 4: Enrollment and Rankings Change over Five Years for Reaction Schools](image)

*Figure 4: Enrollment and Rankings Change over Five Years for Reaction Schools*
University of Washington Foster School of Business

The University of Washington is the oldest university on the West Coast. It was founded in 1861 and is a flagship public research university based in Seattle, Washington. The Michael G. Foster School of Business was established in 1917 with a stated goal “to be the best public business school in the nation” (University of Washington, 2015). According to the Poets & Quants “Top U.S. MBA Business School” rankings, the school is currently number eight for public business schools. Foster School of Business is located in Seattle, the fastest-growing big city in the United States in 2014 (Balk, 2014). The city is home to a growing number of powerhouses such as Amazon, Costco, Microsoft, Nike, R.E.I., and Starbucks. These companies have abundant MBA-level jobs and are highly sought after by students.

When Dan Poston, assistant dean of MBA Programs, joined Foster in 2000, his immediate supervisor said, “I can’t promise you will have a full-time program five years from now.” Fast-forward 15 years: the school has been able to ride the wave of growth in its market and attract a strong pool of applicants. Foster boasts a leadership team and faculty with long tenures at the school, such as Dean Jim Jiambalvo, who has been on the Foster School faculty for more than 30 years. In 2008, under the leadership of Dean Jiambalvo, Foster completed the most successful fundraising campaign in the school’s history, raising $181 million (University of Washington, 2015). This campaign allowed Foster to build two state-of-the-art buildings, which opened in 2010 and 2012, and invest in scholarships and research. U.S. News & World
Report recognized Foster as the highest ranked MBA with the best bang for the buck (Boyington, 2015).

Today, Foster has approximately 1,600 undergraduates, 800 master’s, and 100 doctoral students. It has five formats of the MBA program: full-time, evening, executive, technology management, and global executive MBA. All of its MBA programs are lock-step, cohort-based models. Foster has four in-person, specialized master’s programs.

As a public institution, Foster’s undergraduate and full-time MBA programs are state-supported, but it is the other programs, the fee-based programs, where the school can keep a large portion of the revenue. “Generally, [the undergraduate and full-time MBA programs] are not the ones you would expand. The amount of money you would receive probably wouldn’t offset the [additional] costs you would have,” says Dean Jim Jiambalvo.

Foster has maintained the small and intimate full-time program size through the years. Given the increased interest in the school, the admission selectivity rate has increased from 44% in 2012 to 24% in 2015, and the average GMAT has increased from 675 in 2012 to 682 in 2015, according to U.S. News & World Report. Foster has climbed in the rankings from number 40 in 2011 to number 22 in 2015. “I feel the quality of this program has been so strong, but its reputation is just finally catching up with it,” says Erin Town, admission director at Foster.

Foster’s four specialized master’s programs are in professional accounting auditing and assurance, professional accounting taxation, information systems and supply chain management.

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4 Foster’s four specialized master’s programs are in professional accounting auditing and assurance, professional accounting taxation, information systems and supply chain management.
To climb in the rankings, Foster has been able to realize the investment made in its faculty and program while capitalizing on Seattle as a growing and vibrant city with companies that are attractive to prospective students. Dean Jiambalvo is unabashed in his desire to be the best public business school in the nation.

This is an arms race. The full-time MBA program is like your halo program for rankings. When I talk to faculty and students, even at the undergraduate level, I will mention the MBA rankings . . . because [the full-time MBA program rankings] affect the perceptions of the undergraduate program.

Although Foster does not feel the immediate pressures that some other business schools do, it is slowly beginning to explore new models. However, as Dean Jiambalvo summarizes below, its response will be measured.

We have seen a lot of online learning take place in the last 10 years, but I have not moved the school anywhere near the forefront or differently from what we were doing. Part of that was just the strong belief in that more learning takes place in an interactive classroom environment. . . . Having said that, I have just set up a committee to look into an online MBA. . . . We are going to look at it, but my personal belief is it is not the education you get live. You don’t ever want to dilute the on-campus experience.

**Georgetown University McDonough School of Business**

The oldest Jesuit institution in the United States, Georgetown University was founded in 1789 in Washington, D.C. The university established the undergraduate business school in 1957 and the full-time MBA program in 1983. In addition to its undergraduate and full-time MBA program, McDonough School of Business has two variations of the evening MBA program, an executive MBA program, and a global
MBA program. It also has two executive master’s programs\(^5\) and recently launched an online specialty master’s program in finance.

Through a generous benefactor, McDonough was able to move the business school to a new building in 2009. Dean David Thomas joined the school in 2011 after a 20-year career as a professor and senior administrator at Harvard Business School. He launched a five-year, $100 million capital campaign that has already exceeded its goal four years in (Allen, 2015). McDonough is in the enviable position of having resources that can go toward helping the school realize its goals.

When Dean Thomas took the helm at McDonough, he evaluated the school’s position. “I remember putting on the table, maybe we should just shut (the full-time program) down . . . it was a difficult consideration, even though I put it on the table. Of course, we said no, let’s make it work. We did a complete redesign, and it turned out to be the right call,” says Dean Thomas. The school completed a major curriculum revision in one year that passed the faculty vote with 88% approval (Everitt, 2013). Suggesting the option of closing down the full-time program helped to mobilize the faculty.

Dean Thomas laid out an aggressive goal for McDonough in one of his early annual State of the School addresses. In addition to overhauling the curriculum, he wanted each of McDonough’s programs to crack the top 10 in a major ranking (Everitt, 2013). “What I say around here is that in 10 years time only 20 MBA

\(^5\) Georgetown McDonough’s executive master’s degrees are in leadership and a corporate international master’s in business.
programs will be able to exist in the two-year MBA program format. We have decided that we want to be one of those 20. . . . What we have to do is create an experience that makes that format worth what students have to pay for it in both time and money,” says Dean Thomas.

McDonough’s rankings have been relatively stable at 23. The school has been able to grow its class size to the upper end of its capacity from 508 in 2012 to 528 in 2015. The quality of the class has increased from a 686 GMAT in 2012 to 691 in 2015. The school’s employment and selectivity numbers are still roughly the same as 2012.

McDonough is capitalizing on its location and the reputation of Georgetown University to focus on the intersection of business, government, and international relations. It tries to bring in flavors of these areas in its classes. McDonough has been utilizing online delivery through its executive education group. In 2014 the school successfully launched an online master’s of science in finance with 39 students. McDonough also formed a partnership with ESADA, the leading business school in Spain, to create a global executive MBA where a student graduates with degrees from both institutions. Additionally, Dean Thomas has formed a committee to develop a strategy around technology, saying, “Just recently, I’ve become acutely aware of the sense that we haven’t moved fast enough.”
University of Southern California Marshall School of Business

University of Southern California (USC) Marshall School of Business began in 1920 as the College of Commerce and Business Administration and established its Graduate School of Business Administration in 1960. A private, research university, USC is well known for its Trojan network, a strong and loyal alumni base willing to help the next group of students. Marshall is located in Los Angeles, which many would-be actors seeking stardom and middle-market companies supporting the entertainment industry call home. Although not the most fertile ground for would-be MBA students and high-powered MBA jobs, Marshall has been able to leverage its location as a gateway to the Pacific Rim and Latin America to develop an international curriculum and reputation. In the past few years, Los Angeles has found a new market. The area has been dubbed “Silicon Beach” with more than 9,000 start-ups developing content to be delivered through the platform start-up firms in nearby Silicon Valley (Ellis, 2015). Marshall has been able to tap into that entrepreneurship and innovation and has incorporated that mindset into the strategy of the business school.

Unlike many of the top MBA schools, Marshall School of Business has a vast portfolio of program offerings that are aligned with Marshall’s recent history and Dean Jim Ellis’s strategy. Marshall was ranked solidly in the 15-to-20 range by a variety of surveys in early 2000. However, the school began to lose ground and, by 2013, it fell to 28 in the Poets & Quants’ composite rankings (see Figure 2). The school was hurting in outcome metrics, hitting a low of 77% of students with jobs
three-month post-graduation as compared to the high 80s or mid-90% for peer schools *(U.S. News & World Report, 2014)*. Although there is always fluctuation with student enrollment, Marshall declined from 455 full-time students in 2012 to 415 full-time students in 2014, a 10% drop. Dean Ellis says,

“[Business schools] are all revenue based. We have to have the revenue so we cannot lose the revenue . . . that is why [Marshall] put in all of these specialized master’s. We don’t know what will happen with the MBA. . . . What happens if we just go right off the cliff, and you are sitting there with no alternatives? You have to think that way. What are your options? How else do you deliver?”

Marshall has sought to diversify its portfolio of offerings. In addition to its undergraduate programs in accounting and business administration and world bachelor's in business and its PhD program, Marshall offers a two-year, one-year, part-time, executive, global executive, and online MBA. During the last few years, Marshall has launched 11 specialized master’s of science programs, four of which were launched in 2014. Three of these specialized master’s programs are offered in two formats, in-person and online. Marshall also offers nine for-credit certificates and has a robust executive education offering. Suh-Pyng Ku, vice dean for Graduate Programs, believes these different options allow business schools to capture more of the changing market:

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6 The 11 specialized master’s programs are master’s of science in business analytics, entrepreneurship and innovation, finance, library and information science, long-term care administration, marketing, medical management, global supply chain management, social entrepreneurship, business for veterans, management studies, and business administrations (MSBA).

7 The nine certificates are in business analytics, business fundamentals for non-business professionals, financial analysis and valuation, management studies, marketing, optimization and supply chain management, sustainability and business, technology commercialization, and food industry management.
You have these, what I call tidal wave factors, that on the one hand you see program size shrinking [and] on the other hand you see the students increasingly more concerned about cost and the time commitment. [That] combination [made] us realize . . . we will always have students come back to us and say they don't want to spend two more years with us, but they want to spend another year to specialize in something. And so that has always been in the background . . . [even] two, three years back. We knew there's a market out there, and if we are losing market share in this [full-time MBA] area or the market is shrinking anyway, maybe [specialized master’s] are the new growth area.

Albeit faculty recognize the need for specialized master’s degrees, some would prefer to focus on the quality of the programs. As one faculty member puts it, “Well, I certainly accept that the specialized master’s are a revenue source. We have to get revenue to pay the bills and so on. Where I disagree is that I think we should build programs that are highly ranked academically.”

Marshall, already ahead of other schools in its portfolio of program offerings, debuted its online MBA in April 2015. Getting the online MBA approved by the faculty was “pretty forced. Otherwise, it would not have passed. Sometimes you have to do that,” says a clinical faculty member. The online MBA at Marshall is unique. Unlike other online MBA programs where schools have taken their existing MBA courses and delivered them through a different medium, Marshall began with what the student should be able to do at the end of the program. This mindset allowed the faculty to work backward and reconceptualize the courses. Sandra Crystal, vice dean of online education, chief information officer, and professor of clinical management communication, believes that the end-goal approach and delivery mechanism helped to break down the functional silos found in typical MBA programs:
When you work with another faculty member face-to-face, you’re sitting there with the teleprompter, you’re feeling perhaps self-conscious, but you’re laughing together, you’re learning together, we broke down those [functional] barriers in every way. Setting up the outcomes then creating these asynchronous materials and ultimately delivering them with an interactive session, this is very different than what we would see in our residential classes.

To manage the strategy and execution of the online programs and activities, Marshall formed the online education team led by Crystal. In addition to investigating new models and identifying new areas to pursue, this team helps Marshall faculty members reconceptualize their courses according to different delivery methods. Dean Ellis’s philosophy is to experiment continually; as he says:

I’m a retailer. I come from the retailing industry. In the retail industry, you are trying to stay with your customer and the customer’s tastes change. You are continually putting things on the rack to see if they buy or don’t buy. If they buy, you bring in more. If they don’t buy, you mark it down or get rid of it. We are doing the same thing.

This strategy seems to be working. Marshall’s rankings are trending up, finishing 2015 at number 25. Enrollment for the full-time MBA program is up slightly to 431 and employment for its students finished much stronger at 87 percent. Marshall kicked off a $400 million capital campaign in 2013 and is already more than halfway there. This capital campaign will provide Marshall with the financial cushion to invest in both incremental and transformational innovations.

Georgia Institute of Technology Scheller College of Business

Georgia Institute of Technology (Georgia Tech), a public research institute in Atlanta, Georgia, was founded in 1885, and is one of the leading engineering and scientific research institutions in the country. The institute established Scheller
College of Business in 1934 to meet the need for management training in technology. In 2006, the business school moved into its new facilities in Technology Square. The space was developed by the institute to promote high-tech business centered around a premier research university. Between 2009 and 2012, Scheller College received $50 million from Ernest Scheller Jr., money that allowed the school to invest in its facilities, student scholarships, and add to its tenured faculty base.

In addition to a robust undergraduate business program, Scheller College has three formats of the MBA: full-time, evening, and executive MBA. Scheller College also offers two master’s of science programs in quantitative and computational finance and analytics and five certificates. The college has been up and down in the rankings. During the past five years, it has been as high as 31 and as low as 40 in the Poets & Quants ranking. More concerning is the full-time MBA enrollment of 127 students in 2015, down from 143 in 2012. The entering class is an intimate cohort of 60 students. Offsetting the decline in the full-time MBA program, Scheller has seen healthy growth in its undergraduate and working professional programs at 1,332 students and 415 students, respectively (Poets & Quants, 2015).

Scheller appointed a new dean in 2014 with a research focus in the strategic application of technology innovation. The goal was to position the college to leverage the technology strength of the institute and to focus on delivering business knowledge balanced with technical savvy. Dean Maryam Alavi believes that

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8 Certificates are in entrepreneurship, international management, management of technology, engineering entrepreneurship, and technological innovation: generating economic results.
business is changing . . . every business is becoming tech [and analytics] driven. The world is catching up to a Scheller College and other schools like us. In the 21st century and future decades, schools like us are going to thrive just because the environment has changed so much.

Scheller is actively evaluating and integrating innovations, beginning with the specialized master’s in business analytics launched in 2015. In Dean Alavi’s words,

The whole vision for Scheller College is around innovation. Not only in terms of developing our students to be innovative and to have an entrepreneurial mindset, but fostering innovation in everything we do in terms of our programs, outreach, and cocurricular activities. [The pressure on the full-time MBA program] does not worry me, it just tells me that [our] strategy needs to change.

Scheller is already evaluating how it can change its model to align better with the changing market. To address the market need for flexibility, the college is planning to put all its core courses online for its evening and executive students. It is also evaluating pushing back the start date of the full-time program by delivering some content online to allow students to continue in their jobs for a longer period, thereby reducing the cost burden.

Scheller may begin by developing its own online courses but would consider migrating to a standard offering from another provider. “If we take our accounting class, and it is similar to a course which is [offered online] somewhere else, I don’t see why we need to [reinvent] that,” says the senior associate dean of programs Saby Mitra.
Scheller is focused on materially differentiating its offering and is not ruling anything out regarding evaluating and adopting new models. Mitra believes that it is important to differentiate Scheller’s program.

What is it in our program that really says we are at the intersection of business and technology? . . . We know we cannot differentiate on the core stuff, that’s given. I don’t think we will be credible to differentiate purely based on leadership or any of those standard areas. Anything which is more innovative we feel we can differentiate and add value. That is really the bottom-line thinking.
CHAPTER 5: SOMEONE ELSE, NOT ME

Deans, program managers, faculty, and administrators all agree that the full-time MBA model is undergoing a period of unprecedented change, that consolidation will occur in the industry, and that the full-time program will have to innovate. They also agree that the two innovations presented—Wharton’s Business Foundations and Yale SOM’s Global Network for Advanced Management—have the potential to disrupt the industry to varying degrees. However, when it comes down to how these innovations could be realized in their area or at their school, the general response was that those models would be more beneficial or effective elsewhere.

Deans

Each school believes that its full-time MBA experience is unique and the school has its own “secret sauce” that differentiates its students from those at other schools. Each of the deans is focused on identifying what is unique at their respective schools, and that differentiation goes beyond what happens in the classroom. “Innovation in the curriculum is very easily replicated. What I am looking at are differentiators. Things that are very specific to Scheller College, Georgia Tech, and Tech Square that are really unique and hard to replicate by others,” says Dean Alavi. However, Dean Thomas at McDonough believes that students do not necessarily have to take all their classes from a single institution to realize that uniqueness. He says, “I don’t think that I can make the case that we will lose the soul of the place if we went
heavily into a distributed model.” Marshall’s Dean Ellis agrees and believes that “we're saying the same things because we teach the same things. I mean how many different ways can you teach [the core concepts]? . . . What really defines us as a school is what happens outside of those 16 hours a week in the classroom.”

Although none of the deans believed these innovations would eliminate the need for an in-person, intimate two-year experience, they all hypothesized on what these innovations may mean for their institutions. “I would be worried if Wharton were to [offer] an online MBA. . . . That would be very disruptive for the industry. [But] I don’t think that would affect schools like Purdue, or Illinois, or Texas, or other great public business schools,” says Foster’s Dean Jiambalvo. Looking at these innovations and the rapid adoption that is taking place, Dean Alavi at Scheller believes that “it will change your MBA when this is no longer on the periphery but becomes a mainstream activity. The environment is changing and we can’t ignore that.”

The deans agreed that these disruptions will affect the programs that rank outside of the top 50 more than they will their own programs. “If your choice is to go to one of the bottom 250 or Wharton online, I know where I’d go,” says Jiambalvo at Foster. McDonough’s Dean Thomas agrees. “Below the top 50 there is going to be a lot more disruption by technology. I think if you are not going to a school that you think is going to put you in a stronger network than you can put together for yourself, why not go with online?” Some business schools might accept Wharton’s Business Foundation certification and allow a student to complete his or her MBA in one year, but for McDonough to consider it would “require a different psychology about
ourselves. It would require us to say . . . what they do at Wharton is just as good as what we do in our first year . . . you have to fight through the initial blow to your self-esteem,” says Dean Thomas.

**Program Directors**

Each of the four schools in the study had senior program directors that also served as faculty, teaching either in the core or elective courses. Through the program director lens, although many were intrigued by the innovations, they were equally concerned about what it would mean for the student experience. All the program directors believe that the camaraderie built as the students go through the core classes together and the richness of bringing students with different experiences together contributes to the overall student learning. Having a model where some content is not delivered in person could adversely affect that culture. Prashant Malaviya, senior associate dean of MBA Programs at McDonough, says that for students who are CPAs and choose to opt out of the core accounting class,

professors tell us there is just a different language, different culture that they don’t have that is getting in their way of proceeding along in the curriculum. A lot of what the core curriculum does in any MBA program is that it establishes a platform upon which the rest of the education builds. It establishes a culture and a shared language.

Three of the schools in this study allow students to opt out of a select number of core courses (Foster being the exception), but few students take advantage of that option. The initial reason provided as to why only a few students opt out of classes when research has shown that they increasingly care about flexibility and cost was that
the students want to be with their peers and appreciated the camaraderie of the core classes. When further probed, two program directors indicated the reasons may also be more practical, such as absence, lack of appropriate electives that could be taken in place of the core, or students wanting an “easy class.”

Faculty

Faculty members had very similar reactions specific to their area of focus. Most faculty who teach the core tend to agree that innovation affecting the pedagogy would be better in the electives while faculty who teach electives tend to agree that changes would be better in the common, foundational classes such as the core.

One faculty member who teaches in the core believes that,

in one sense, core or fundamental means basic and, in another sense, it means critically important to the development of student’s understanding of the evidence basis of our core discipline. I think that is the worst plan . . . to outsource the core classes to Wharton. . . . I am much more optimistic about [electives].

Another core faculty member who teaches in the core agrees.

I really like the idea of having the core be on campus and taught by an instructor at the school and then the electives being off and outsourced to experts in other areas [utilizing a network model]. We have, and a lot of schools have, expertise in the basics but who is an expert on derivatives? I could tell people to watch this module. [The students] would actually get a better education if it’s the electives they were doing this with and not the core.

Some core faculty, however, did see some potential benefits. Jonathan Clark, a finance professor who teaches the core finance class at Scheller, says “I would be very happy if the arithmetic stuff were done online, remotely by students before they
showed up for class. I think we can add more value if we could bypass that and jump right into some more applied business cases.”

Faculty members who teach electives saw the benefits of leveraging these innovations for the core but feel that electives are a way to differentiate their business school. Similar to Clark, faculty who teach electives prefer that students have a common level of competency.

I can see doing away with some things being offered and completely use the foundation courses from Wharton or other places. There’s a lot of latitude that’s given to faculty, especially at the graduate level, in designing their curriculum and courses in a way that best leverages the strengths of where they are. I would leave that more to the faculty to bring in content from outside and then incorporate in their class in electives.

Another faculty member who teaches electives says:

I think for essentially introductory material, I’ll be stunned if students don’t like the flexibility, don’t like the ability to move quickly through something they know or move slowly through something they don’t. I don’t think it’s going to change the fundamental character of the full-time MBA. . . . I almost think that teaching the core might just completely shift to online. Whether it’s using modules from Wharton or anybody else . . . but the MBA is going to start further in than it previously started.

Irrespective of the type of class, Fader at Wharton says, “You have to be very confident as a faculty member to be able to bring in another faculty member to essentially teach your course.”

**Admission**

Though the two-year MBA is an immersive, transformational experience, the admission directors say prospective students are increasingly concerned about cost and flexibility. Being able to address these two concerns by providing options for when
and how to take a set of classes and to have access to a wider set of courses or faculty
through a network model was very positive.

Although the admission offices have not yet seen applicants with the Wharton
certification in their applicant pools, they believe it is only a matter of time. One
admission director says, “If folks get a certification, then it would definitely weigh in
our admission decision.” It would not only demonstrate that an applicant had the
discipline and persistence to go through the courses, but also that the applicant had
some knowledge of what he or she will be learning in business school and perhaps
more clarity on what career path to pursue. Another admission director summed it up
by saying:

It certainly shows some level of foresight and thinking about [the fact that] ‘I
want to improve my toolkit in any way that I can.’ . . . It’s always looked on
positively if someone has some type of additional training and it certainly
helps us understand that they can handle the MBA course work just given that
they’re participating in a program like that.

Who Then, If Not Me?

There is widespread agreement that innovations such as the ones presented
could be strategically utilized and may even be inevitable for full-time MBA
programs. In an interview with Poets and Quants, Dean Richard Lyons of Haas
School of Business says, “Within five years . . . it’s not farfetched that 10% of the
courses taken by full-time MBAs would be digitally delivered” (Byrne, 2014a).
Although there is agreement that disruption to the full-time MBA program is coming,
there is a reluctance to embrace this as inevitable. Innovation in higher education has
been described as something that is often discussed and debated, but the move to action is “stuck between sluggish and glacial” (Kirschner, 2012). Many administrators and faculty, ironically, want to innovate while preserving the status quo. If everyone believes innovation is necessary but only relevant for others to consider and implement, then it is doubtful that any meaningful change will occur. As one program director put it, “I worry that there is an inertia in the university and in faculty to really welcome [innovation] and blended programs.” The full-time program slowly will become increasingly less relevant to the changing environment and needs of the students. The full-time program may indeed become a smaller, boutique-type program offered by a handful of visionary and super-elite schools.

Schools that are able to engage and motivate their faculty and administration to figure out how to take ownership of and embrace the need to evolve, and successfully leverage new innovations in the marketplace, will have a better chance of surviving. The schools that are more advanced in this area are also ones that are currently or have recently been in the most precarious positions. Having seen the other side of the precipice, they seem much more willing to do what is necessary not to end up in the same position again. McDonough’s Thomas observed,

The schools that are likely to innovate in that way are going to be the schools that are just outside of having that psychology that . . . they belong in the top 10. A good example is Arizona State University. [They are] probably the most innovative school in this space of using technology. They have been able to do it and now they have reached a tipping point where it is actually enhancing their brand.

It will be interesting if schools that are on the leading edge of innovation, such as Arizona State University, begin to overtake the schools in the competitive set
because they have a “different psychology about themselves,” as Dean Thomas puts it, are unbounded by the trappings of rankings and willing to meet the needs of a changing marketplace. These schools are not anchored by what a full-time MBA program “should be” or “needs to be” and can freely cross boundaries between academic disciplines to redesign the full-time MBA with student learning in mind. Leveraging the best of the new models and innovation, these schools may be able to redefine a student’s experience and expectations, and also the economic model of the full-time MBA, making the “traditional” full-time MBA largely irrelevant.

In a crowded market, there will be players who are willing to experiment with innovation and new models. These experiments ultimately may do little to shift the full-time MBA market, but doing nothing (believing someone else should do it instead) guarantees status quo.
CHAPTER 6: WHAT WE HOLD DEAR

Few topics generated more conversation when discussing these innovations and how schools may respond than the brand of the school, pride of creation, and the faculty- incentive structure. These are top-of-mind topics for any business school at all times, not just when considering innovations. The schools in this study are all research institutions, and their faculty are responsible for, and motivated by, knowledge creation. Faculty take pride in this knowledge creation that directly and indirectly affects the brand of the school. This mindset of what is central to a research institution should not be underestimated when considering innovation.

Our Brand

Brand is defined by the American Marketing Association as “a name, term, design, symbol, or any other feature that identifies one seller’s good or services as distinct from those of other sellers” (2015). The brand of a business school rests on its reputation and rankings—in essence, how it is perceived by peers and the public. Although many schools have expanded their portfolio of offerings and the full-time program is becoming a smaller component of the school, the perception is that the quality of a school rests on its full-time program. Many raised concerns that these innovations may affect their brand negatively.

Several deans, faculty, and administrators believe that having someone else deliver the core could be a risky move and potentially brand-destroying. “It’s like
saying we can’t compete with the teaching that is done at Wharton,” says Dean Jiambalvo at Foster. “Recommending that [our admitted students] take Wharton’s MOOCs . . . it doesn’t look so great,” says McDonough’s admission director Shari Hubert. Partnering with institutions from other countries in the Yale SOM model to deliver courses may make perfect sense, but the problem becomes “branding with peer schools in the U.S. . . . [Partnering with other business schools] may separate the schools that can [independently] sustain full-time MBA programs and those that can’t,” says marketing professor Joe Priester at Marshall. “How will we brand our MBA if it’s really an eclectic mix of 20 different universities that are providing expertise in something? We want to know that they’ve gotten our MBA but that will become harder as you pick and choose from different things,” says accounting professor Frank Hodge from Foster.

Brand is a key consideration for schools that are innovative, but they may eventually come to view it differently given the changing environment. Dean Thomas was on the faculty at Harvard for 20 years before coming to McDonough. “Ten years ago the faculty would have killed the idea of HBX [Harvard Business School’s online initiative] because it would destroy the brand. Now I think it’s actually enhancing the brand.” Similarly, for Yale SOM, the GNAM has propelled the school to be the most global U.S. business school and the network schools are leveraging the network as a secondary brand. “We are hoping over time that the secondary brand will become pretty important in a student’s decision about where to study,” says senior associate dean David Bach.
Our Creation

Research institutions create and disseminate knowledge. This fundamental belief tends to influence how schools view innovation. Although a business school is considered a professional school, unlike other professional schools such as medicine or law, there is no standard level of knowledge or professional certification required, such as passing the bar to become a lawyer or the medical boards to become a doctor. Much has been written about the similarity of the curriculum at business schools (Datar et al., 2010; Khurana, 2007; Stephens, Stephens, & Kohl, 2014). It became clear, however, during the interviews that although all business schools fundamentally teach the same core classes, what is actually taught may be vastly different. “We do not have a common idea of what constitutes an MBA program. There are various definitions, and there is what we need to do for accreditations, but there is lots of room to play,” says a senior administrator. This variation is evident in a faculty member’s comment about his marketing class: “What I think is important is not necessarily the same as what the Wharton School thinks is important . . . and everything I want to teach is important.”

Most faculty believed that the type of innovation represented by Wharton’s Business Foundations would be better if it were developed internally. Faculty members could then control the content and remain the experts. As one faculty member put it,

I would want to keep it as much [mine] as I could. Even if it’s not as well produced and even if it isn’t as charismatic, at least there is that connection, rather than feeling like somebody else is the expert and this person is coming in to work with me.
There is sensitivity about outsourcing a class when it could be taught in-house.

Administrators and faculty agree that while many are willing to experiment with innovations, it would require “investment and steady direction from the dean’s office, but ultimately, innovation will [have to] come from the faculty. That can’t be driven top down,” says a senior administrator.

Our Incentives

Related to the desire for faculty to experiment and the need for faculty to drive innovation is how incentives are aligned with these goals. “Faculty are in a very noble discipline on the teaching side of the house,” says one senior administrator. Even as the ranks of the adjunct or nontenure-track faculty are increasing, in the elite institutions research faculty still dominate. A senior administrator who is also a tenured faculty member commented, “I think this top level will still resist and change on this slowly because they can, because they have the voting rights, and because they see their jobs as being mostly research anyway and teaching very often is a necessary evil.”

Many of the research faculty are genuinely passionate about their teaching. They spoke proudly of their teaching awards and learning a new way to engage with students, but they also spoke about what they view as their main motivation: research. As one faculty member plainly says,

Our incentive system as a research university is oriented very heavily towards publishing. My salary is very sensitive to publishing and it's not that sensitive to teaching. So the blunt and not very pleasant answer, if you're talking to a
A research faculty member, is that it has to be worth their time. Course credits or excess compensation are good but, to be honest with you, most people would rather have course credits. It's different if you're talking at a lower tier university where they are a teaching school. But for us, I have to publish. I already get too involved in teaching and spend more time than I should.

Another faculty member says that the term “teaching load” is used because it is something that drags you down and goes on to say: “Teaching is a necessary evil in a sense, for many people, although it's valued here and it's important and everyone takes pride in it, it's not why they got into this field.” Younger faculty who may be more inclined to experiment with new models hold back, concerned that it may be held against them during the tenure-review process. “We want our assistant faculty to fulfill their teaching load in the most efficient way possible so they can focus on their research,” says one tenured research faculty member.

One seasoned faculty member was asked by her dean to explore doing a MOOC. She says, “For me to teach a MOOC right now in my career did not make sense. It would require learning new technology and a brand new prep. It would take substantial resources for me to develop it. It would just be one more thing to do.” A program director lamented that

[i]t can be a struggle to get [faculty] to innovate and, to some faculty, it is a game that they are playing. . . . Some of the things you hear [from faculty] are, ‘I just want to [teach] the bare minimum number of classes and be left alone to do my research’ and they want to disengage some from the issues. . . . It is really tough to motivate faculty. If they don’t want to do it, it is tough to come up with a stick that says you have to do it.
Senior administrators also see the challenges of getting faculty involved in developing innovations and believe that the school has to invest in changing the mindset of faculty and the reward-and-incentive systems. Mitra of Scheller agrees:

As a research university obviously we’re incented to really do well on the research side, and that’s how we get rewarded. Of course, as a business school, we have to pay attention to the classroom. I’ve seen a lot of people's tenure being denied based on research. I’ve never seen someone getting tenure with weak research and great teaching, that doesn’t happen. Research is really important. That’s valid because ultimately if you want to differentiate and if it’s the core stuff that’s going away, to be a good teacher you need to be researching. To teach something on digital marketing, you need to be doing research on that. Otherwise, it’s hard to teach that effectively because there is no known knowledge base that exists. It also means that the amount of time that I can get someone to focus on transforming his teaching scores or helping the university design a new curriculum is very limited. The incentives are not there. How do I balance that and how do I incentivize people to make that change? That’s the hard part.

Deans agree that the current incentive structure reinforces the individual contribution to research but does not support change and innovation for the institution. These leaders are trying to find flexibility to reward the type of behaviors necessary to innovate while working within the confines of the existing legacy system and structure. To do so, some schools are shifting their mix of tenure- and clinical-track faculty to allow room for clinical faculty to experiment. For example, at Marshall, the split between tenured and tenure-track to clinical faculty is around 60:40. Marshall uses more clinical faculty than the average 70:30 ratio of tenured and tenure-track to clinical faculty for AACSB-accredited schools in North America (AACSB, 2015b). Dean Ellis believes this gives the school greater flexibility because

[w]e can add an adjunct to teach new, hot topics . . . that would be hard for someone to teach if you don’t live in that world. For [tenured faculty], if they
are not research productive, we give them a higher course load in terms of teaching. We will change the content of their workload.

This staffing flexibility allows the school to develop more timely courses, expand its specialized master’s offerings, and better utilize its fixed faculty costs. At Foster, Dean Jiambalvo says that the number of tenured and tenure-track faculty has gone down from 105 in 1978 to 83 today despite the fact that there are more programs. “[T]o keep salaries competitive, we shrink the tenure-track faculty and hire more lecturers,” he says.

Some schools are creating more flexibility in how faculty are reviewed, allowing the faculty to decide if their evaluation should be more heavily weighted toward research or teaching. At Foster, faculty are evaluated based on 40% research, 40% teaching, and 20% service to the school. Faculty members can shift 10% of their weighting to their strongest area, and the final score feeds directly into their compensation. This allows faculty who want to focus more on teaching to have that component weigh more.

Dean Thomas at McDonough believes that “schools do not reward [faculty] for innovation [nor do they] reward and value teaching as an intellectual activity.” Without properly aligned incentives and an environment that fosters and rewards innovation for all faculty members, innovation may be slow to develop and become adopted within business schools. These examples of faculty incentives nudge the schools in the right direction but are very small steps in developing an environment where individuals will take ownership of innovation.
CHAPTER 7: MOVE ALONG, INERTIA

Business schools are at once innovative but also traditional and risk-averse. Business schools are quick to explore new research, understand market trends, and adjust to student demands, yet they are confined by a traditional structure that does not have incentives necessary to drive the transformation that may be required to weather environmental changes. The academy, steeped in tradition, promotes and encourages its own inertia. Business schools continue to move forward but find it difficult to change their speed and direction. As one tenure-track professor laments:

We teach innovation, but we are very averse to innovation ourselves. It’s like risk management. A lot of professors in finance teach risk management. However, if I look at their own stock portfolio, they are not risky at all. If we were risky, we wouldn’t be in this profession. We love the long-term aspect of sitting down, thinking, and writing, but we are relatively risk-averse. As a result, our whole industry is risk-averse. If I pick up a book on operations management from the 1970s, and I look at the table of contents [and compare it to a book today], it hasn’t changed. Why not? So for us, this innovation is, I think, coming from the market. We are not pushing it ourselves . . . unlike banking where I used to work before. We knew what was going on in the market, we would adopt it. Here we were relatively isolated and insulated.

Dean Thomas at McDonough says, “We’ve done in my view some things that put us in the game, but there are lots of pressures and trends that require the mind shift from making changes to put us in the game to making changes to change the game.” Changing the game would require a dramatic event, not unlike the collapse of Lehman Brothers for Wharton or asking the McDonough faculty to consider, if only for a brief few moments, shuttering the full-time MBA program. As one senior administrator says:
I think the biggest barrier is academia. We have a business model that it is so entrenched and so slow moving. We have tenure and everything else. I am the beneficiary of tenure, full disclosure, but yes, I think it’s just hard for us to change. It’s just really hard for us to change. I mean corporations have a hard time changing, and they don’t have any of the entrenched motivations and incentives that we have in academia, so if they have hard time changing, I think it is us who will be the biggest hurdle to change, and I think the moment will be when the scenario that you just described, if the survival itself is at stake, then yes. I mean, obviously people will change, but I am not sure how likely that is.

Most innovations that have occurred at business schools have been incremental ones. These did not require rethinking the educational model of the business school or “changing the game,” as Dean Thomas stated. The part-time MBA, specialized master’s, and most online MBAs took the same educational model and put it in a different format. It did not require faculty to change the way they taught or the content of it. In fact, many schools advertise these programs as the same MBA in a different format. Increasingly, new models will begin to force these conversations as pressures continue to push at the business model. Paul Alameda, a tenured faculty from McDonough says soberly, “So, the answer is the tenure model should change. But who votes? Tenured faculty. Who’s going to bell the cat? Not the cat. So, that’s going to be a problem.”

Business schools that feel the pressure the most will look at their options and perhaps act. Each of the four schools felt varying degrees of pressure during the past five years. Foster has been the beneficiary of a growing region and an active fundraiser. It is observing the landscape and looking at what other schools are doing, but the school does not have immediate plans to act. McDonough has benefited from the efforts of its dean to refocus its attention on the full-time MBA, strengthen its
connection with Georgetown University, and make a foray into new models to
diversify its portfolio. Marshall has rebounded from its downward slide with a
diversified portfolio of programs, is fully committed to exploring new models, and is
completing a successful fundraising effort that is the envy of its peers. Scheller, facing
a shrinking full-time program, is perhaps the most open to utilizing new models and
innovation in its full-time program to remain competitive, although it is still evaluating
all options.

Each of the four schools likely will respond at different speeds and with
different conviction. Change and the adoption of innovation do not guarantee success.
Doing nothing does not guarantee failure. As one professor put it, “retailing was
predicted to go the way of the dinosaur 20 years ago because of Amazon and
everybody else. We still have a pretty flourishing [brick-and-mortar] retailing
environment.” However, it would be nice to be Amazon today.

Lessons Learned

Although this study did not set out to identify best practices or lessons learned,
a few stood out that are worth highlighting. Some may seem obvious and familiar
from any number of management books, but it is always reassuring to see it confirmed
in practice.
Lesson 1: Have a Big, Hairy, Audacious Goal (BHAG)\(^9\)

What is the point of dreaming small? If the goal is significant and compelling, it can be a rallying cry for everyone involved (or a good excuse if you do not reach it). Yale’s BHAG is to be the number-one global business school in the U.S. Check. Wharton’s Online Initiative’s BHAG is to advance Wharton’s social mission by reaching more students and sharing knowledge. Two million learners later, check. McDonough’s BHAG is for each of its programs to be in the top 10 of one of the rankings. Half check. Foster’s BHAG is to be the number-one ranked public institution. Working on it. BHAGs give everyone a goal, something to shoot for, and something by which to evaluate strategy and progress.

Lesson 2: Incentives Matter

Higher education is a noble profession. “Setting young minds on fire,” as Wharton’s Dean Garrett is quoted as saying, is extremely rewarding. Faculty and administrators alike go above and beyond what they need to do because of their desire to cultivate and educate. As one faculty member asserts:

You have to invest in changing the mindset of faculty and their reward systems and incentive systems. . . . The investment really has to be in educating people on where the industry is going, carrying them forward, and very often making them work against their own long-term incentives for the betterment of the student or the betterment of the program or betterment of society.

\(^9\) The term BHAG was introduced by James Collins and Jerry Porras in their 1994 book *Built to Last: Successful Habits of Visionary Companies.*
At some point, tradeoffs will have to be made, and observations of human nature suggest that the tradeoff would be made in self-interest. As one faculty member shares,

> I think most faculty are actually really well intentioned and good people. But I also think that it's hard not to take one's own self-interest into play and even in life. I mean in life, self-interest, you have to think about whether this [is] going to be something that matters and how much time is it going to take.

Creating the right incentive structure aligned with the BHAG (see Lesson 1) is crucial to “increasing the degree of relative advantage of the new idea . . . and encourag[ing] behavioral change” (Rogers, 2003, p. 236). Rogers (2003) contends that incentives can take a variety of forms. Incentives can be monetary or nonmonetary, individual or systems-based, immediate or delayed. They can even be positive or negative. Any combination of these incentives can influence adoption.

Wharton pays their faculty a 10% royalty every time a course runs on Coursera. Fader developed the Intro to Marketing MOOC. He estimates that more than 300,000 students have taken the MOOC. He receives a check every time his class runs on Coursera even though he is not involved with its facilitation. Ten percent at $95 per student is a nice monetary incentive.

At Marshall, faculty who teach online courses receive a small stipend to re-conceptualize their course and course load release. Yale also provides course load credits for teaching GNAM courses. Additionally, Dean Snyder and Professor Bach both demonstrate the importance of the initiative to Yale SOM by teaching GNAM courses. Yale SOM and everyone associated with the school now have realized the added incentive of being recognized as the most global U.S. school.
Lesson 3: Provide the Resources

Chances of success are greater when one has the right resources and people are set up for success. This includes training on new technology, providing instructional designers to help think of different ways to deliver a course, leading by example in having senior leadership actively engaged in the new model, or building awareness by discussing how other schools are leveraging new models. Business schools that have been able to get the first few faculty members involved in some form of innovation have provided the resources to help with technology and course reconceptualization. Without those resources, it may have been an insurmountable barrier to getting started. As one professor puts it, “Educating myself on a new technology is nontrivial.” Having people to help reconceptualize the course is important.

Fader at Wharton worked with an instructional designer to take a 24-session class and bring it down to eight weeks. The content was chopped up, and some content became videos while other content became interactive tutorials. They found a way to take all of the content he normally covers in the class and spread it across different modes of communication. Fader declares,

It is just not optimal for all 80 minutes of it to be delivered in one way. So now the online version of the course pretty much covers everything that the full semester course covers, but the actual video time where you see my face is actually a pretty small fraction. [The instructional designer] did amazing work.

Fader believes that their success has a lot to do with “a sense that we have got this figured out. [The school shows] that we will support you and make it easy for faculty to get on board, therefore getting more faculty to take the time, the good ones especially. You know, it’s a virtuous cycle.”
Of course, this level of support is predicated on having available resources. For many schools, resources are constrained, but tradeoffs will have to be made. One senior administrator believes difficult decisions will have to be made on resources because “there won’t be a full-time program here in five years unless we make changes.”

Lesson 4: Success Breeds Success and the Role of Champions

The best way for people to want to get involved in innovation and change is if they see that others are successful and if there are positive incentives associated with success (see Lesson 2) and that they, too, are set up for success (see Lesson 3). Success stories help organizations achieve the BHAG (see Lesson 1) by proving success and then reinforcing behavior. It is a virtuous circle.

To breed success, it is helpful to have champions. Champions are individuals who support or even promote an innovation, thus overcoming indifference or resistance to the new idea (Rogers, 2003). Howells and Higgins (1990) found that champions are typically more risk-taking, innovation-minded, and influential with others. Champions play the role of opinion leaders and help to encourage a mindset change in organizations.

At Wharton, Karl Ulrich is a well-respected, very successful, longstanding, tenured faculty member who spearheaded the online initiative and who is “open to kind of twisting arms to do the right thing,” says one faculty member. One of the first faculty members to experiment with online delivery was Fader, the Frances and Pei-
Yuan Chia Professor of Marketing, codirector of the Wharton Customer Analytics Initiative, and a 28-year veteran faculty member who has taught in all of Wharton’s programs. When Wharton first decided to launch MOOCs, the school asked its faculty to see who would be willing to participate. Many people said no, but Fader recounted,

I was too stupid to say no. I didn’t want to do it. I knew deep down I was making a mistake. But I make lots of mistakes. . . . So we will waste some time here. It will be harmless. . . . And man, oh man, has it been fabulous. I am the canary in the coal mine now. I will try anything.

Fader has been a champion of not only online education but also experimenting with how to make his in-person classes more impactful using technology. His willingness to engage and the success he has had helped to pave the way for other faculty to get involved. A faculty member at Yale says,

You get a couple of new adopters then the faculty start saying ‘[the faculty using the new models] are getting the best rating’ and students are saying ‘you can’t believe how that professor’s class is so interesting.’ They start feeling badly and begin to think maybe I should change what I am doing.

Seeing others improve and succeed puts pressure on the entire system to strive for better.
CHAPTER 8: WHAT THE FUTURE HOLDS

Although everyone believes innovations such as the ones presented here have the potential to change the industry and that the industry must change to a degree, institutional insiders believe that change will happen faster at other institutions than theirs. They also believe that, while consolidation will occur, the industry will look relatively unchanged in the foreseeable future.

The Future According to Business Schools

According to the deans, senior program administrators, and faculty interviewed, the future for business schools, and the full-time MBA program in particular, is that it will change but not anytime soon—in large part due to inertia. Not surprisingly, everyone believes that there always will be a market for the in-person, transformative experience offered by the traditional two-year MBA format but that the interest will continue to shrink as applicants gain greater program choice and flexibility. Full-time programs will become a “boutique” program offered by elite, top-ranked schools. As one senior administrator puts it,

Schools are trying to do [more] career services, some of them are trying to shrink their program to increase their [average] GMATs and GPA and get better ranked. So, what are you actually doing? If you think about it, you just sort of invest more. Everyone is increasing those costs really in the hope of getting benefits, but since everyone is doing it, there are no benefits. So basically, the full-time MBAs are going to become less and less viable except for very few [schools] of the massive scale of Harvard and Wharton. It’s going to really challenge the viability of full-time MBA programs.
To be competitive in this boutique market, business schools will need to identify their points of differentiation and a unique proposition for students who increasingly are demanding a better return on their investment. Each school is trying to find this unique proposition and attempting to stake out a niche that leverages the reputation of the home institution and location, something that is not easily replicated across other programs. Joint-degree programs, courses with a particular institutional bent, and immersive, experiential learning opportunities are just a few things business schools are adding to their programs.

Many of the faculty interviewed believe the online experience to be inferior to the in-person experience where “I can look them in the eye to see if they understand what I am teaching,” says one professor. Many more faculty members admit to not knowing what today’s technology is capable of and how it can be integrated into the classroom but are adamant that the in-person experience is superior. More important, the concerns about the amount of time it would take to learn a new way of teaching and to adapt existing courses are substantial. “I’m 54, not 25 anymore. There are faculty members who still use transparencies, so I know I’m not the last,” defends one faculty member.

Even with the issues of overcoming faculty inertia, many believe that blended programs will be the norm down the road and that there will be a “slow, steady progression towards technology-enabled programs,” says Dean Thomas at McDonough. These new models can allow business schools to “use technology effectively to teach better, to lower costs, to improve the student experience, and to
improve the connection with both potential students and employers.” And so, “all of our programs are going to look blended in many different ways,” says a senior administrator. Most tellingly, a professor declares, “[Online learning] will grow. Just because I don’t like it, it doesn’t mean it’s not going to grow.”

When will this change occur? No one believes much will change during the next five to 10 years. Some have predicted delivery changes in the next 10 to 20 years, but most did not believe major changes will occur until 20-plus years out. As one professor says,

I don’t see massive changes until the old farts like me start to work their way out of the system. . . . The next generation faculty are more tech-savvy and won’t have the patience to deliver 80-minute monologues. All I know is that we will look at it at that point and say: ‘A, this is kind of obvious. Why didn’t we get here sooner?’ And B, we will look at the archived footage of old class sessions and syllabi or whatever and say, ‘man is that lame.’ So you know, just like we take Google for granted today instead of going to the Yellow Pages to look for phone numbers. It will be like that. But who the hell could have anticipated that?

The Propensity to Change

Analyzing the rankings and enrollment movement during the past five years for schools ranked 15-to-40 may provide a useful tool to evaluate which schools are more likely to embrace innovation and new models. Says McDonough’s Dean Thomas,

Which schools will have the wherewithal to respond? It’s going to be the schools with substantial endowments so that they can move their operating dollars to their investments. It’s going to be the schools that feel the competitive pressures . . . we don’t reward pedagogical innovation.
Figure 5\textsuperscript{10} shows the rankings and enrollment trends for the schools ranked in the 15-to-40 range and the relative size of their endowment\textsuperscript{11} as reported by \textit{Poets & Quants} (Bonsoms, 2016). The figure shows that only three schools have had positive trends in enrollment and rankings during the past five years. These schools—University of Washington’s Foster School of Business, University of Minnesota’s Carlson School of Management, and University of Texas–Austin’s McCombs School of Business—are in strong positions and may have little urgency to change, although Foster and McCombs both have relatively bigger endowments to invest in innovations.

More schools have experienced a decrease in enrollment from 2011 to 2015. This downward trend is a result of the decreasing number of applicants to the full-time MBA program and also may indicate a conscious strategy by schools to shore up the quality to help their standing in the rankings. Some schools that have experienced a decline in enrollment but a rise in rankings have made bold moves, such as Arizona State’s W. P. Carey School of Business, offering full scholarships for the next class of MBA students in an effort to attract enrollment and improve quality. The University of Rochester’s Simon School of Business cut its tuition by more than 13\% in the hopes of attracting a greater number of applicants. However, with relatively limited endowment funds, this strategy can last only so long without a strong revenue stream from its portfolio programs.

\textsuperscript{10} See Appendix 8 for the \textit{Poets & Quants}’ list of the top 50 business schools and their corresponding university.

\textsuperscript{11} Note that endowment information is missing for Maryland (Smith), Minnesota, Notre Dame (Mendoza), Penn State (Smeal), Rice (Jones), and SMU (Cox).
Figure 5: Propensity for Change for Schools Ranked between 15 and 40


Blue size denotes relative endowment
Red denotes no endowment information
Schools that have lost ground on enrollment and rankings during the past five years are more prone to action to maintain their standing in the top-40 ranking. These schools may be more likely to embrace innovative changes to their full-time curriculum given their predicament. Schools such as Southern Methodist University’s Cox School of Business have added a slew of specialty master’s programs to its portfolio and, more recently, launched a one-year MBA program. Other schools such as Wisconsin School of Business are taking a novel framework of intentionally integrating the idea of Knowing, Doing, Being, Inspiring, and Networking (KDBIN) into all elements of the curriculum and cocurricular activities.

Schools that seem most in jeopardy are Ohio State’s Fisher School of Business, University of Maryland’s Smith School of Business, and Penn State’s Smeal College of Business, which have been losing ground in enrollment and rankings. These publics and semipublic institutions may consider shifting their focus entirely to other portfolio programs and potentially pull out of offering the full-time MBA completely. Smaller, private institutions that may not have the financial resources to respond may indeed feel the pressure to be willing to set aside their existing model and embrace new innovations.

**Does Changing the Business Model Change the Educational Model?**

The consensus is that change will be slow for the full-time MBA program. Innovation and change are already happening and at a much faster pace in other programs such as the specialty master’s and online MBA. These programs are not
flagship programs of elite business schools and are often launched to generate revenue. These peripheral programs enable business schools to diversify the risk of any one program’s failing. Much has been discussed about these programs at the periphery of business schools, and it is worth noting that these programs not only change the pure economic dynamics of schools but also the faculty balance (more practitioners and clinical faculty tend to teach in these programs) and the investment strategies of the schools (more technological sophistication is required to support these programs). As these programs grow, the priorities of the business school may change, too.

This line of thought begs the question: Does changing the business model of the business school change the educational model? When this question was posed to each of the schools, the resounding response was “yes,” “sure,” “of course,” or “it has to.” However, when asked if changing the business model was possible, McDonough’s Thomas sums it up best: “If I change various aspects of my business model too much, there is a legitimacy question in the environment of the school that constrains the business school.” So, a different question may be more appropriate: How does changing the business model of the business school change the educational model?

Business models for business schools are already changing. It seems the farther down the ranking of a business school, the more diversified its portfolio. The business model for many business schools already has shifted to a portfolio model, with peripheral programs subsidizing the full-time MBA program. Programs such as

100
the growing specialized master’s, part-time MBA, certificates, and executive education provide business schools much-needed financial resources for their traditional full-time programs.

For the top-ranked programs, they not only have revenue from other programs to subsidize their full-time program, but they also have a sizable endowment to invest in innovation activities. As Jain at Yale SOM remarked,

The nonprofit private higher education in the U.S. is really completely unusual where the model is that the university loses money on every student and relies on the expectation that over the course of their lifetime, on average, the alumni will be able to give. This philanthropy-based funding of private, nonprofit higher education just doesn’t happen anywhere else.

A prime example is Harvard Business School. In 2015, MBA program tuition and fees accounted for just 17% of its revenue and “tuition and fees do not fully recover MBA program operating expenses at HBS, much less the School’s long-term investments in academic innovation” (Harvard Business School, 2015, p. 10). The school has an endowment of $3.3 billion and a healthy executive education and publishing business. Twenty-four percent of its revenue in 2015 came from executive education, 27% from endowment distribution, and 29% from its publishing business. This portfolio approach has allowed the school to maintain a robust, well-funded, traditional full-time MBA program with strong scholarships and still be able to experiment with innovation.

The schools ranked in the top five, or the super-elite group, of business schools each has endowments in the billions. Their sizable endowments, along with revenues from their portfolio programs, allow the super-elites the financial flexibility to weather
most environmental changes, continue to build their traditional, full-time MBA program, and be able to invest in innovations. In 2015 Harvard Business School spent $33 million in scholarships, up from $26 million just five years ago (Byrne, 2016b). The scholarships provided last year account for 55.9% of the annual tuition. Harvard also invested $16 million in HBX, their proprietary version of MOOCs. Though Harvard generated $5 million in revenue from HBX, it had to cover the $11 million investment shortfall (Harvard Business School, 2015). This type of financial cushion would be unthinkable at most business schools.

The level of a business school’s endowment, for the most part, parallels its position in the rankings. The striving-elite schools, those in the five-to-15 range, tend to have endowments ranging from $150 million to $350 million. The schools that are in the competitive set, ranked in the 15-to-40 range, for the most part, have endowments at or below $150 million. Business schools that are essentially noncompetitive have small, if any, endowments. The lower a business school’s ranking position, the less endowment-based revenue it tends to have. These schools rely on other sources of revenue, such as an expanded program portfolio to subsidize their full-time MBA programs. As more business schools create these programs, however, competition increases and it becomes harder to rely on these portfolio programs to subsidize their full-time MBA program sufficiently.

Innovation and change in the educational model are necessary for these programs to be economically viable. Bringing the cost of delivery for these programs down by utilizing clinical faculty, providing minimal support functions, and
leveraging technology in the classroom may allow certain business schools to develop the capabilities necessary to explore innovation in the full-time MBA program. At a certain point, these economic decisions may force a closer look at the full-time program, and for many business schools, to question the relevance and viability of it.

Albeit some schools are making the conscious decision to exit the full-time MBA program market, other schools may double-down on their full-time programs. The need for external validation through rankings is strong. Rankings metrics, for the most part, reflect what MBA hopefuls or MBA graduates want to know: Can I get into that school (GMAT, GPA, and selectivity)? What are my job prospects (employment percentage and salary)? How will this degree serve me in the future (ROI)? As rankings continue to drive applications and contribute to the prestige of an institution, it is unlikely that business schools will deemphasize the full-time MBA rankings. Bloomberg BusinessWeek, the publication that started the MBA rankings, recently adjusted its MBA rankings metrics and eliminated faculty research output and increased its focus on “how well programs help graduates achieve their career goals,” says Jonathan Rodkin, research and rankings coordinator at Bloomberg BusinessWeek (Byrne, 2015c). These shifts in the ranking metrics eventually may drive the strategic direction and decisions at those schools struggling to survive.

The full-time MBA program may survive and thrive despite itself because of the innovation from the other programs that, over time, will co-opt the full-time program. Some business schools with limited resources may survive by letting better-resourced schools experiment with different models until an industry standard is set.
The danger with this approach is, of course, being late to the game. Other schools may change their fortunes by securing a sizable gift that propels the school onto a different playing field, allowing the school to invest in scholarships, recruit stronger classes, and invest in developing new models. Yet other schools may partner with companies to develop courses or revamp their MBA programs such as UCLA’s Haas School of Business’s partnership with Accenture to launch a big-data course, and HEC Paris’s partnership with IBM to revamp its MBA (Murray, 2016). The real question for many schools might be whether they have the resources to ride things out.

An Alternate Reality

Imagine for a moment what the future might look like. MBA hopeful, Mabel, begins the MBA process by taking a series of MBA foundational MOOCs like the ones offered by Wharton or Harvard. She decides that the MBA is something she really wants to do rather than something she ought to do only because she does not know what else to do. She starts to build her network with fellow students and prospective employers through the interactive nature of these programs and the capstone projects. Her performance in these courses, along with an “interaction score” for team performance, and her resume, references, and a prerecorded interview are sent to the business schools she selects, based on recommendations tied to her performance in the courses and qualifications. Mabel is invited to interview at a number of schools and selects to interview at schools where she feels she is a cultural fit. After the interviews, both Mabel and the schools provide a ranking. Through a
matching process, similar to the matching process for medical school residency programs, Mabel enrolls in the MBA program of her choice.

Mabel and all her classmates successfully have learned the basic business concepts in their foundational MOOCs so their first semester is filled with activities and learning that integrate those concepts through experiential learning with companies and nonprofits both domestically and internationally, all guided by faculty. These experiential learning opportunities allow Mabel and her classmates to build camaraderie and enable the school to dish up its own “special sauce.”

Spring semester is filled with elective courses that can be taken in person or online from a network of business schools, allowing students to pursue their area of interest but also learn to work with global teams perfecting cultural, time zone, language, and technology-balancing skills. Exposed to different foundational concepts before the start of the MBA program, Mabel knew the areas that were of interest to her and was able to tailor her spring semester classes to build on those interests. She also was able to narrow her career interest quickly and secure an internship in her desired area.

This scenario is unlikely today, but how far-fetched is it?

Conclusion

As the water heats and begins to boil, it seems each frog senses its discomfort. The frogs that are closer to the flame are searching for ways to get away from the heat, while the frogs farthest away are stationary. Whatever maneuvering and repositioning
that occurs in the pot may slow, but not stop, the inevitable. Either the fire from the stove is extinguished or the frogs need to escape the pot. The environment outside the pot is unknown. It may be another pot, a frying pan, or the chopping block. The frogs already at the surface will have longer to decide their next steps. However, as the frogs below begin to leave the pot or get cooked, the ones at the top must decide to leave or succumb, too. Change is inevitable. Who will pave the way?
APPENDICES

APPENDIX 1: LITERATURE REVIEW

Business schools enjoyed sustained growth during their first 100 years. MBA programs did much over the years to improve the degree, and many programs implemented changes and improvements along the way. However, the fact that MBA programs are similarly structured is not surprising. “Once a field becomes well established, there is an inexorable push towards homogenization” or isomorphism (DiMaggio & Powell, 1983). In an established market, changes are marginal, and innovation is rare.

Institutional Change and Strategy

By definition, “isomorphism is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions” (Powell & DiMaggio, 1991, p. 66). An institutional environment is a social system that exerts influence and regulation over other social entities. For organizations to endure, they must conform to the rules and belief systems prevailing in the environment (Powell & DiMaggio, 1991; Weerakkody et al., 2009). The greater the constraining pressures from the environment, the fewer degrees of freedom for change. Organizations then become increasingly similar and move toward
homogeneity. This homogenization gives organizations credibility that is low risk and legitimizes their way of doing business.

DiMaggio and Powell (1983) identified three mechanisms that push organizations toward homogenization. Coercive isomorphism stems from formal and informal pressures for compliance. The pressures can be highly visible and formal rules such as a set curriculum covering a certain number of credit hours. The pressure also can be invisible and informal, such as diversity issues. The second mechanism is mimetic isomorphism, where one organization models itself after another that it believes to represent a higher level of success and achievement in the public eye. In MBA programs, mimicking is constantly encouraged and reinforced by rankings and movement of faculty and administrators between schools. The third is normative isomorphism, which is rooted in the processes of professionalization, where values, codes, and standards are imposed by universities as well as professional certification and accreditation agencies (Hanson, 2001).

Reinforcing this institutional homogenization process is the struggle for legitimacy. This struggle exists because schools fit into a classification that Cohen, March, and Olsen (1972) identified as organized anarchy. In the private sector, specific goals can be defined, technology is certain, and workers must participate continuously. Clear direction may be less certain in MBA programs, where conflicting goals may exist, teaching processes could be different, and faculty are mobile between schools.
Organizations selectively adopt these externally defined goals and processes in an effort to establish legitimacy in the eyes of society (Hanson, 2001). They gain societal confidence by doing what society expects them to do. Through legitimization, an organization establishes justification for a claim on societal resources and protects itself against attacks on its activities (Hanson, 2001).

As schools seek legitimacy, the replication process begins. They tend to seek guidance on what highly regarded schools are doing, which results in a homogenization process, with schools looking and acting like one another. An unintended consequence of this struggle for legitimacy is that education organizations are all-too-often rewarded for their conformity to correct structures, programs, and processes rather than the quality of their product (Rowan, 2002; Scott, 2008). Any school that strays too far from the established norm by attempting dramatic change risks losing legitimacy.

For business schools, the various rankings that are published yearly serve as a visible signal to the marketplace as to their legitimacy, thus limiting leadership discretion when making strategic choices (Gioia & Corley, 2002; Martins, 2005). Ranked MBA programs often live and die by their rankings (Gioia & Corley, 2002). They are constrained and have little room to maneuver to institute change. The group is highly homogenized, and it is difficult for change to gain legitimacy.
Strategy and Business Models

Enabling change within an organization often requires defining a strategy and the actions to support that strategy. However, defining strategy is not a simple task given that many definitions have been presented (Shafer, Smith, & Linder, 2005). Mintzberg (1987) defines strategy along a continuum. On the one end is strategy that emerges from a pattern of choices made through time, and on the other end is strategy based on a plan and a course of action (Mintzberg, 1987). Strategy, for most organizations, is a review of past actions and some planning. Business schools are constrained in their ability to create distinctive strategy. Schools are competitive in the public rankings, which spurs innovation and change. However, the fear of going too far outside accepted norms and losing legitimacy constrains actions. It is therefore difficult for schools to differentiate themselves (Gioia & Corley, 2002; Martin, 2009).

Business models support the strategic vision of an organization. A business model is defined by Johnson, Christensen, and Kagermann (2008) as “four interlocking elements that, taken together, create and deliver value.” These four elements include customer value proposition, profit model, key resources, and key processes. Customer value proposition (CVP) is the value that is created for the customer or a way to help the customer get an important job done. Profit model is the blueprint that defines how value is created for the company while providing value to the customer. Components of the profit model include the revenue model, cost structure, margin model, and resource velocity—or how quickly fixed assets, such as tenured faculty, can be turned over in education. Key resources are assets such as
people, technology, and the brand required to deliver the value proposition to the targeted customer. These are critical because they help to create a competitive differentiation and are not generic resources. Last, key processes are operational and management processes that allow them to deliver value in a way that they are repeatable and scalable. Understanding the strategy and business model that an organization pursues can provide insight into the priorities of that organization, its view of the future, and how it is choosing to respond.

**Disruptive Innovation**

Innovations can be thought of on a continuum from evolutionary to revolutionary (Christensen, 2013; Christensen & Eyring, 2011; Thomond & Lettice, 2002). At one end, evolutionary or incremental innovation improves the performance of established products or business models along the dimensions that are of value to the traditional customers. This type of innovation is critical to maintaining or enhancing market share and allows organizations to maintain a stable and efficient context to satisfy the mainstream market demands (Thomond & Lettice, 2002). Evolutionary innovation requires organizations to focus on the familiar or to mimic other organizations, which stifles creativity. Business schools actively have engaged in evolutionary innovation to improve their offerings and to keep up with competitors.

At the other end of the continuum is revolutionary, radical, or disruptive innovation, which, at its core, is entrepreneurial activity and market creation (Christensen, 2013). Clayton Christensen advanced the disruptive innovation theory
and published several influential books based on it. Disruptive innovation is a new approach or product that, over time, becomes a better alternative, thereby displacing the original market with a new and different one (Christensen & Eyring, 2011).

Christensen’s theory states that disruptive innovations start at a much lower point on the performance and price scale than similar existing products or technologies. These technologies or products grow in underserved and less-desirable markets because of their low cost and are thus perceived as insignificant and less profitable to the industry leaders because of their lower margins. Disruptive innovations slowly move up the value chain and often take time to overtake established products and technologies. As these disruptive innovations improve the quality of their products to the customer, they eventually meet the expectations of a larger customer base and become a real threat.

Innovations that potentially change an industry do not necessarily come from existing players (Christensen & Overdorf, 2000). Given that disruptive innovation requires stepping outside the constraints of how things are currently being done, it is often difficult for successful organizations to implement them. Studies have shown that traditional leaders may not recognize the disruption or may discount its significance because it is initially less attractive relative to the primary market (Assink, 2006; Christensen & Eyring, 2011; Huang, Lai, Lin, & Chen, 2013; Johnson et al., 2008; Thomond & Lettice, 2002).

Many researchers have debated the applicability of disruptive innovation as a theory and, through their own research, have built on the theory leading to further clarification (Assink, 2006; Christensen, 2006; Govindarajan & Kopalle, 2006;
Markides, 2006). Govindarajan and Kopalle (2006) found that disruption can occur not only at the low end but also at the high end. When the cell phone was first introduced, unit costs were high and there was a limited market. In time, as costs decreased, reliability increased, and the network expanded, mainstream customers increasingly adopted the cell phone. Markides (2006) clarified that disruptive innovation is a business-model problem, not a technology problem. Although technology may enable innovation, how it changes the business model drives the action and response to disruptive innovation. Assink (2006) identified a model whereby disruptive innovation targets new markets in addition to low-end markets. New market disruptions create a completely new value network, allowing new customers to be identified.

Christensen (2006) further refined his theory to add that disruption is a relative phenomenon. Online brokerage was a sustaining innovation for discount brokerages such as Schwab because it allowed them to discount better, but it was a disruptive innovation to Merrill Lynch’s established, full-service brokerage business model. Christensen also concluded that the objective function of a disruption is as yet unclear. Disruption is a process and not an event. The incumbent may not respond at all to the disruption because there is no reason to expect it to capture the market. Online brokerage firms have existed in the marketplace alongside full-service brokerage firms. Albeit this outcome may indicate that there is no need to worry, the market share for customers and assets has shifted over time. Disruptive innovation indeed may be a process and not a “cataclysmic event” (Christensen, 2006).
Some have suggested that a similar phenomenon of disruptive innovation is under way in higher education in the form of online education (Byrne, 2011a; Christensen & Eyring, 2011; Clarke, 2013; Martin, 2012; Terwiesch & Ulrich, 2014; Whitaker, New, & Ireland, 2015). The University of Phoenix, a for-profit university, launched the first online MBA in 1989 to capture nontraditional students who were unable to access traditional education (Byrne, 2011a). It was not until 2011 that highly ranked business schools such as Carnegie Mellon University’s Tepper Business School and University of North Carolina’s Keenan-Flagler Business School began to offer online MBA degrees, providing legitimacy to this method of delivery (Byrne, 2011a). Similar to the brokerage firm example earlier, the online MBA would be an evolution for a school that may have offered a correspondence MBA, but it would be disruptive for a traditional business school.

Massive Open Online Courses (MOOCs) also have been in the spotlight as a potential opportunity to provide low- to no-cost, convenient classes or certificate programs to a global population (Whitaker et al., 2015). The current review of adoption, completion, and impact has not been encouraging (Billsberry, 2013). Yet, in a study conducted by the Babson Survey Research Group of more than 2,800 colleges and universities, 74% of chief academic leaders rate learning outcomes in online education the same or superior to face-to-face education and 66% say online learning is critical to their long-term strategy (Allen & Seaman, 2014).

Higher education typically has looked within for innovation and competition. However, innovation that could potentially change an industry does not necessarily
come from existing players (Christensen & Overdorf, 2000). New models are being
developed by traditional and nontraditional players. Technology companies such as
Udacity and Coursera are creating new products in the education space. Other
companies—management consulting firms such as McKinsey & Company, Deloitte,
and Accenture—have provided training classes on specialized business topics for their
mid- to senior-level executives. More recently, these consulting firms have begun to
focus on training junior individuals on using core MBA content, or a “mini-MBA.” It
is unclear how these classes will affect the applicant pipeline at business schools.

Adoption of Change

Although many have said that higher education is ripe for disruption, how the
institutions will respond is quite another story. Everett Rogers popularized the
diffusion of innovation theory. Rogers defined innovation as “an idea, practice or
object that is perceived as new by an individual or other unit of adoption” (2003, p.
12). With the passage of time, the diffusion of the innovation occurs through
communications channels among the participants in a social system (Rogers, 2003).
According to Rogers, adoption of innovations can be understood by looking at both
the innovation and the adopters. The more complex an innovation, the lower
likelihood of adoption and diffusion. However, if the innovation provides a large
advantage, then the adopters will cope with the high learning curve. Motivated
adopters and those with more power or agency to create change are more likely to
make the adjustment and adopt the innovation. An organization is more likely to

adopt a complex innovation when it feels pressured or when it believes its situation to be untenable. Those who are prone to be early adopters typically have different characteristics than people who adopt an innovation later. These early adopters utilize a decision-making process to evaluate the innovation and decide whether to move forward.

Adoption can go through stages from innovators, early adopters, early majority, late majority, and laggards (Rogers, 2003). The rate of adoption, or the speed at which participants adopt an innovation, can be affected by other things, such as leadership and the size of the organization. Innovations also can fail to diffuse and gain adoption because of a lack of understanding or awareness, competition from other innovations, lack of engagement and support, or a rigid environment that prevented the changes an innovation might bring.

**Implications for Research**

The landscape for the MBA is rapidly changing, and business schools are facing substantial pressure (Byrne, 2014a; Christensen, Alcorn, & Emanuel, 2014; Datar et al., 2010; Howard & Cornuel, 2012; Schlegelmilch & Howard, 2011; Thomas, Lorange, et al., 2013). The number of schools offering the MBA degree has increased both in the United States and globally, as has the number of business-degree substitutes. Demand, as measured by the number of applicants interested in the traditional MBA program, has declined, and the composition of the MBA student population has changed to include more international students. Though MBA
programs have changed their curriculum and teaching methods in the course of time, market dissatisfaction with skill gaps in MBA hires continues to exist.

History shows that business schools can adapt and change to the environment. They will seek out ways to distinguish their offerings but will not step too far away from accepted, legitimate models, partly due to inertia but also to potential negative changes in their rankings (Gioia & Corley, 2002). Institutional theory abounds in higher education and may be more evident in business schools than other programs because of their desire for legitimacy and focus on rankings. However, to survive and thrive during this turbulent period, business schools will need to innovate.

Review of the literature suggests that new models enabled by technology may disrupt the MBA market and change the model of MBA education (Christensen & Eyring, 2011; Christensen et al., 2008; Clarke, 2013; Thomas, Lorange, et al., 2013). The literature also suggests that disruption is not an event but a process (Christensen, 2006). Business schools have experimented with new models in the form of distance and online MBAs for more than 20 years and, more recently, with MOOCs. Highly regarded business schools are now developing initiatives using technology in the classroom (Byrne, 2011b; Byrne, 2014c; The Wharton School at University of Pennsylvania, 2014). This may be the legitimizing signal that accelerates changes to the full-time MBA program.

There is much literature on innovation and change, but little is known about the innovations that potentially could disrupt graduate business schools and whether business schools will respond and adopt these innovations. Research focused on these
areas could produce a better understanding of how different innovations can change the business models of business schools and, in turn, perhaps their educational model.
As evidenced in the literature, business schools are currently facing challenges along multiple fronts. Their value creation and value proposition are being questioned. Especially at risk is the flagship, full-time MBA program. Achieving meaningful change will require business schools to challenge the existing model. The schools best positioned to lead such changes are the very same institutions that benefit most from the current system of competition: the leading business schools (Eckel, 2007). This research explores how two highly regarded business schools are responding to current pressures by developing a potentially disruptive innovation and how four business schools view these innovations and their potential response. Although each institution is taking a different approach, understanding why they chose to pursue their specific innovation, the goals they set for these initiatives, and the expected outcome of their investment may provide a view of the implications for the flagship, traditional full-time MBA programs.

**Research Question and Approach**

The focus of this multiple case study research is to understand how disruptive innovations at leading business schools can influence or completely reshape the model of the full-time MBA program and affect the evolution of the business school. This research explores institutional strategies that formed the disruptive innovation. The research questions include:
1. Why did these leading institutions launch the disruptive innovation?
2. How credible do other institutions view these innovations?
3. Does changing the business model change the full-time MBA education model?

**Research Design**

This research will explore disruptive innovations in management education and its potential impact on the full-time MBA program utilizing a grounded theory, multisite analysis approach. The grounded theory case method allows for an in-depth, detailed understanding of the dynamics present in a single setting or a comparison of several cases that is grounded in theory (Creswell, 2012; Eisenhardt, 1989; Johnson et al., 2008). Schramm is quoted in *Case Study Research: Design and Methods* (Yin, 2013) as saying, “The essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result.”

This research will utilize a multisite, qualitative case study analysis to develop a detailed understanding of the phenomena, processes, and outcomes of each case, and develop insights to build further on existing theories (Miles, Huberman, & Saldaña, 2013). Extreme cases and polar types can help to extend emergent theory (Eisenhardt, 1989). Although each site may have approached disruptive innovation differently based on its strategic goals and institutional characteristics, examining why each site
took on the challenge, how the school implemented it, and the impact the institution expects it to have on management education can provide insight.

Site Selection and Site Participation

Business schools are extremely responsive to market pressures and are always seeking to improve and refine their offerings. However, these changes are largely incremental, given that schools tend to stay within the acceptable social system (DiMaggio & Powell, 1983; Hage, 1999; Hanson, 2001; Weerakkody et al., 2009). Revolutionary or disruptive change is difficult to implement within the existing system because it represents a fundamental shift and departure from existing practice. Therefore, it is necessary to look not only within the business school community but also the fields that may be adjacent to education to understand the emerging disruptive innovations.

For this study, it was necessary to identify business schools that had innovations that could be presented to other schools to gauge their reactions. For the innovation that served as a stimulus, three primary considerations drove the selection of the research sites. First, the innovation must have the potential to be truly transformative, if not disruptive, where it can affect the student base and the approach to management education. The second consideration was how current the innovation is. Given the rapidly changing nature of industry and technology, only innovations that have occurred during the past five years were considered. The third factor is the reputation of the institution so that the innovation would be regarded as legitimate.
The study focused on highly ranked MBA programs, specifically the top 20 schools as ranked by *Poets & Quants*. Highly ranked MBA programs give legitimacy to changes in the marketplace and are typically better resourced in both the money and people required to implement such innovation. This study will use the 2015 *Poets & Quants* rankings of MBA programs that are based on a weighted average of the five most influential business school rankings: *Bloomberg BusinessWeek, The Economist, Financial Times, Forbes,* and *U.S. News & World Report* (see Appendix 3).

Expert input and research helped to identify a list of schools and companies to study (see Appendix 4 and 5). Based on publicly available information, it appears many schools are using technology in the classroom or are creating a one-off technology initiative. These initiatives might be more accurately categorized as evolutionary since they do not change the existing product or attract a new market. Of course, some of these schools could be developing innovation that may not yet be widely known. Even as many schools have innovations under way, few are pursuing truly disruptive innovation. Of the top 20 schools, only three schools are pursuing recent innovations that could be considered disruptive: Harvard Business School’s pre-MBA foundations course series HBX, the Wharton School’s Business Foundations Series offered as MOOCs through Coursera, and Yale School of Management’s Global Network for Advanced Management program. Considering access issues, only Yale and Wharton remained as possible sites.

Innovation that potentially could change an industry does not necessarily come from existing players (Christensen & Overdorf, 2000). Looking outside higher
education, McKinsey & Company—a highly regarded management consultancy—recently launched McKinsey Academy, which offers core MBA content to companies and individuals. This innovation could change the competitive set for the full-time MBA program. Although this site would be valuable to study, after several emails to different persons in charge of McKinsey Academy with no response, this site was eliminated.

Table 1 below provides an overview of these two stimulus innovation sites.

<table>
<thead>
<tr>
<th></th>
<th>Yale School of Management at Yale University</th>
<th>The Wharton School of Business at University of Pennsylvania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Founded</td>
<td>1976</td>
<td>1881</td>
</tr>
<tr>
<td>Institution Type</td>
<td>Private</td>
<td>Private</td>
</tr>
<tr>
<td>Total Full-Time MBA Program Enrollment</td>
<td>625 students</td>
<td>1,711 students</td>
</tr>
<tr>
<td>Prestige</td>
<td>#10 on Poets &amp; Quants</td>
<td>#3 on Poets &amp; Quants</td>
</tr>
<tr>
<td>Where Innovation Resides</td>
<td>Outside of full-time MBA Program and in Global Programs at the business school</td>
<td>Outside of MBA Program and in Center for Innovation at the business school</td>
</tr>
</tbody>
</table>

The effects of disruptive innovation cannot be studied without understanding potential reactions from other players in the marketplace. Four schools in the 15-to-40 range in the Poets & Quants’ ranking were identified and selected based on access, rank, diversity of size, breadth of their portfolio, and geography (see Table 2). A mix of public and private institutions was selected to determine whether the funding source would change reactions. Schools in the 15-to-40 range in the rankings are more likely to feel the competitive pressure of the market as they balance the desire to improve in
ranking with the competitive nature of the market. Interviews with the senior leadership of these institutions shed light on how they see these innovations and their potential implications for the business school community.

Table 2: Selected Reaction Sites

<table>
<thead>
<tr>
<th>Location</th>
<th>Washington, D.C.</th>
<th>Atlanta, GA</th>
<th>Los Angeles, CA</th>
<th>Seattle, WA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Founded</td>
<td>1957</td>
<td>1913</td>
<td>1920</td>
<td>1917</td>
</tr>
<tr>
<td>Public/Private</td>
<td>Private</td>
<td>Public</td>
<td>Private</td>
<td>Public</td>
</tr>
<tr>
<td>Total Full-Time MBA Program Enrollment</td>
<td>528</td>
<td>127</td>
<td>431</td>
<td>248</td>
</tr>
<tr>
<td>Rank on Poets &amp; Quants</td>
<td>#23</td>
<td>#34</td>
<td>#26</td>
<td>#22</td>
</tr>
</tbody>
</table>

Data Collection

Many different forms of data were utilized to gain an in-depth understanding of the case, draw insight, and build on the theory. These data consist of history, observations, interviews, documents, reports, and other sources of information (Creswell, 2012). By using multiple sources, the research triangulated, verified, and identified themes and commonalities through data corroboration.
The researcher spent, on average, two days at each institution for data collection. This study included a total of 41 participants. Thirty-seven interviews were conducted in person and four were conducted via phone or video due to scheduling issues. Before the interview, each participant was sent a brief write-up on the two innovations at Wharton and Yale SOM to allow for a baseline knowledge of these innovations (see Appendix 7). Follow-up questions were conducted via email, phone, or in person. Interviews were conducted with the dean, program directors, admission director, innovation directors, faculty who teach in the core and the electives courses, and staff at each of the schools who were involved with the innovation.

The interviewees were identified based on research of the institutions’ organizational structure, articles on innovations and programs at the school, and recommendations from colleagues. All those interviewed reviewed and signed a consent form where the intent of the study was described. The study was not designed to protect the identity of the participants. However, one faculty member requested to remain anonymous. Confidentiality was offered for specific quotes if requested.

The main focus of the interviews was to capture the stories of the participants and to understand why the school decided on this disruption, how it views this innovation affecting its MBA program, and how other business schools considered these innovations. Though a set of general interview questions was developed in advance and customized for each school and on each individual’s role, the interviews were semistructured with open-ended questions (see Appendix 6).
Each interview lasted 45 to 75 minutes depending on the individual. The interviews were digitally recorded and sent via email to be transcribed by a transcription service. To maintain a high level of quality and accuracy, the transcription was sent to the interviewee for review, clarification, and signoff. This practice of member checking reduces the likelihood of incorrectly reporting information (Miles et al., 2013). Some participants replied with corrections to the transcript. Follow up emails and phone conversations helped to clarify the data and increase external validity.

A variety of documents were reviewed to provide another point of reference. Materials such as strategic plans, presentations, and program brochures were gathered from each site, where appropriate. Other information sources, such as the schools’ website, press releases, and articles in the press also were reviewed as an alternate method to understand an institution’s position. These various sources, in addition to personal observation, and the multiple interviews at each institution allowed for validation of the information and triangulation of data (Yin, 2013).

**Data Analysis**

The primary objective of this study is to identify how the four schools likely would react to the innovations presented by two stimuli sites to better understand how innovations can address the challenges facing the full-time MBA program and potentially reshape management education. Rich cases were developed based on the interviews and analysis of the collected documents. Each interview was transcribed
and reviewed. Additionally, memos were written following each interview to draw out key concepts, short phrases, or ideas (Creswell, 2012). The data was analyzed to develop an initial set of themes for sorting the information.

Initial codes were developed based on the themes derived from change theory and isomorphism. These codes include ideas such as peer actions, reputation, legitimacy, and scarce resources. Other factors that could influence decisions based on the initial literature review were incorporated, including environmental challenges such as globalization, applicant pool, competition, and revenue generation. Additionally, themes around the business model factors of value proposition, profit model, key resources, and key processes were also identified.

Using these codes as references, the first two interview transcripts were reviewed and coded. The results were compared to the initial codes and used to revise the initial coding scheme to develop a more refined set of codes. This refined set of codes was applied to all interviews. A segment approach to coding was applied to capture all key ideas so that multiple codes could be captured as appropriate. The data and themes were structured around institutional strategy, value proposition, barriers to change, expected outcomes, and future plans. An additional layer of coding was added based on the role of the participants. This additional layer allowed for better sorting of the data and identifying emerging themes based on the organizational structure of business schools.

These themes were then compared across cases and across roles to determine commonalities and differences leading to a more sophisticated understanding.
Emerging themes were identified and compared to existing theories to shape a hypothesis and build on the emergent theory. “Tying the emergent theory to existing literature enhances the internal validity, generalizability and theoretical level of theory building from case study research” (Eisenhardt, 1989).

**Research Validity and Reliability**

This research used several strategies to ensure validity and reliability. Several data sources and methods were used to triangulate the information within and across the cases collected. Rich, thick descriptions of the case for each site were developed to ensure integrity. Member checking was employed along the way to confirm and validate the findings. Peer review and debriefing were also used to ensure that the research was on track.

In this study, the research was based on the participants’ knowledge of their institution and on the MBA market in general. The research was also based on the participants’ reaction to the innovations presented and hypothetical willingness to consider these innovations in their institutions. Although the research was rigorous, the findings relied on the ideas and opinions of senior administrators and faculty members selected. By this very design, the study cannot reach general conclusions about the phenomenon. How each school may choose to pursue or react to transformative innovation may be different.

Business schools are responding to changing market forces, but few instances of truly disruptive innovation exist today. The new models are nascent and may not be
the innovation that survives but, instead, the building blocks for future innovation. The limited number of sites studied may prevent full generalizability of the findings. Each case had a different approach and strategy, which may yield different effects on the future of the MBA.

In qualitative research, the researcher is the primary instrument of data collection and analysis (Creswell, 2012). As an MBA graduate from Columbia Business School, someone who has hired MBAs for many years, and who is now responsible for MBA student success at Emory University, the researcher has an interest in seeing the MBA degree continue to gain in value and stature. Although the research has an interest in this area, there is no obvious conflict.
APPENDIX 3: POETS & QUANTS’ BUSINESS SCHOOL RANKINGS 2015

Poets & Quants': The Definitive List of the Top 100 U.S. MBA Programs in 2015

<table>
<thead>
<tr>
<th>2015 Rank</th>
<th>School Name</th>
<th>2014 Rank</th>
<th>Index</th>
<th>US News</th>
<th>Forbes</th>
<th>Business Times</th>
<th>Financial Times</th>
<th>The Economist</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Harvard Business School</td>
<td>2</td>
<td>100</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>4</td>
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<tr>
<td>2</td>
<td>Stanford GSB</td>
<td>1</td>
<td>98.7</td>
<td>1</td>
<td>1</td>
<td>7</td>
<td>3</td>
<td>11</td>
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<tr>
<td>3</td>
<td>Chicago (Booth)</td>
<td>4</td>
<td>97.7</td>
<td>4</td>
<td>6</td>
<td>2</td>
<td>6</td>
<td>1</td>
</tr>
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<td>UPenn (Wharton)</td>
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<td>97.2</td>
<td>3</td>
<td>7</td>
<td>5</td>
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<td>5</td>
<td>Northwestern (Kellogg)</td>
<td>6</td>
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<td>3</td>
<td>3</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>6</td>
<td>Columbia Business School</td>
<td>5</td>
<td>95.7</td>
<td>8</td>
<td>4</td>
<td>6</td>
<td>4</td>
<td>10</td>
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<tr>
<td>7</td>
<td>MIT (Sloan)</td>
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<td>UC-Berkeley (Haas)</td>
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<td>7</td>
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<td>Dartmouth (Tuck)</td>
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<td>14</td>
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## APPENDIX 4: CONTRIBUTORS TO SITE SELECTION

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<th>Name</th>
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<tr>
<td>David Bach</td>
<td>Yale School of Management, Senior Associate Dean for Global Programs</td>
</tr>
<tr>
<td>Heather Byrne</td>
<td>Managing Director, MBA Programs, University of Michigan Ross Business School</td>
</tr>
<tr>
<td>John Byrne</td>
<td>Editor, <em>Poets &amp; Quants</em>, Creator of the <em>BusinessWeek</em> Rankings</td>
</tr>
<tr>
<td>Emily Ceiri</td>
<td>Chief of Staff to Dean of Wharton School</td>
</tr>
<tr>
<td>Gary Fraser</td>
<td>Dissertation on business schools and leadership</td>
</tr>
<tr>
<td>Deke Cassibian</td>
<td>University of Pennsylvania, Senior IT Director</td>
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<tr>
<td>Rob Kazanjian</td>
<td>Vice Dean, Goizueta Business School at Emory University</td>
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<tr>
<td>Don Huesman</td>
<td>Managing Director of the Innovation Group at the Wharton School</td>
</tr>
<tr>
<td>Patrick Noonan</td>
<td>Professor of Strategy, Associate Dean of Management Practice</td>
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<tr>
<td>Gregg Schoenfield</td>
<td>GMAC, Director, Management Education Research</td>
</tr>
<tr>
<td>JD Schramm</td>
<td>Lecturer, Stanford University Graduate School of Business, dissertation on business school innovations</td>
</tr>
<tr>
<td>Jagdish Sheth</td>
<td>Professor of Marketing, Goizueta Business School at Emory University, author of <em>The Business School in the Twenty-First Century</em></td>
</tr>
<tr>
<td>Peter Tafuno</td>
<td>Dean, Said School of Business at Oxford University; 20+ years at HBS , previously Senior Associate Dean for Planning and University Affairs at Harvard Business School</td>
</tr>
<tr>
<td>Damian Zakakis</td>
<td>Director, Career Services at University of Michigan Ross Business School</td>
</tr>
<tr>
<td>Possible Sites</td>
<td>Innovation Description</td>
</tr>
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<td>-------------------------------------</td>
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<td>Carnegie Mellon University's</td>
<td>Online MBA; Same content and price as traditional MBA</td>
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<td>Tepper School of Business</td>
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<td>Cornell University's Johnson School</td>
<td>Tech-focused MBA in NYC</td>
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<tr>
<td>Harvard Business School</td>
<td>Micro business. The start-up exercise is part of a new yearlong course for first-year</td>
</tr>
<tr>
<td>students layered on top of Harvard's</td>
<td>required core of 10 courses, known as FIELD. Teams pitch their best ideas to other</td>
</tr>
<tr>
<td>required core</td>
<td>students. Harvard opened up a simulated stock market where students each with $100K</td>
</tr>
<tr>
<td></td>
<td>virtual money, acting as investors, began trading on the startup concepts.</td>
</tr>
<tr>
<td>Harvard Business School</td>
<td>FIELD—Field Immersion Experiences for Leadership Development)—Part of a yearlong course for 1st year</td>
</tr>
<tr>
<td></td>
<td>students on top of the 10 required core. The three-part course is designed to cultivate intelligence in leadership, global business, and the integration of business disciplines. The first part of the course focuses on leadership exercises, small team dynamics, and collaboration. The experiential course is a departure from its almost exclusively case study discussion classes. The core motivation is that there are many ways of learning—thinking, reflecting and doing and to reset teaching equilibrium.</td>
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<tr>
<td>Harvard Business School—HBX</td>
<td>Online set of pre-MBA management classes for undergrads and graduate students at $1,500.</td>
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<tr>
<td>Northwestern's Kellogg School of Management</td>
<td>EMBA International Growth Lab creates a partnership with five international schools to work together and have jointly taught courses.</td>
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<tr>
<td>Stanford Business School</td>
<td>Design school. Open classes to MBAs to learn about design thinking</td>
</tr>
<tr>
<td>University of Indiana Kellogg School</td>
<td>Created a super-high-touch culture. Developed ME, Inc for students. #1 in student satisfaction.</td>
</tr>
<tr>
<td>of Business</td>
<td></td>
</tr>
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<td>of Business</td>
<td></td>
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<tr>
<td>University of North Carolina's</td>
<td>Online MBA; same content and more expensive than a traditional MBA.</td>
</tr>
<tr>
<td>Kenan Flagler Business School</td>
<td></td>
</tr>
<tr>
<td>Yale SOM</td>
<td>Integrated learning, team teaching</td>
</tr>
<tr>
<td>Yale SOM</td>
<td>Global initiative. Partnered with 24 schools globally to create the network model. Ted Snyder dean.</td>
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APPENDIX 6: SAMPLE INTERVIEW QUESTIONS

INNOVATION SITES

• Why did your institution decide to start this initiative?
  ▪ What need were you trying to meet?
  ▪ How did you determine your market?
  ▪ What is your mission and vision?

• What do you hope to accomplish with this initiative?
  ▪ What are the measures of success?
  ▪ What are the desired outcomes?
  ▪ Value proposition for customers? For organization?

• What is the business model for this initiative?
  ▪ Who is the customer?
  ▪ What is the value for students, institution, companies, market?

• How do you sustain this initiative?
  ▪ Pricing? Cost Structure? Fixed vs. variable cost? Value?
  ▪ Does it need to be financially sustainable?
  ▪ Resource velocity or what is the access to resources (faculty) to support the revenue target?

• What are the key processes (course development, faculty, marketing, people) that make the delivery of the value proposition repeatable and scalable?

• What are the concerns or risks that will hinder its development?

• What are the implications for your traditional MBA programs?
  ▪ Your program?
  ▪ Faculty usage?
  ▪ Accreditation?
  ▪ Program structure?

• How will changing the business model change the education model?
  ▪ Business model, technology, pool, learning?

• What are the implications for other traditional MBA programs?

• Is there anything else you would like to tell me about this initiative or disruptive innovation in general?
SAMPLE INTERVIEW QUESTIONS—REACTION SITES

- What are your goals for your school? How are you differentiating your school?
- What concerns you about the continued growth of your programs?
- How are the pressures that the industry is facing, such as limited resources, declining applicants, and globalization affecting your school?
- What are some innovations you have seen in the management education market you think may change this industry?
- How can Wharton’s Business Foundations series or Yale’s GNAM innovations be an opportunity or threat to business schools?
- How might these innovations affect the full-time MBA education?
- How do you see these innovations (Wharton, Yale) affecting your school?
- What innovative models are you playing with that can change/make more efficientSCALE your class, experience, program?
- Do you think changing the business model can change the education model?
- What do you think will happen with management education in the future?
- Is there anything else you would like to add about changing models for management education?
Recently, a few top business schools independently have introduced major innovations that are potentially transformative to management education. One innovation involves the online provisioning of core MBA content delivered by top MBA faculty, accessible by anyone. Since its inception less than a year ago, more than 50,000 people have taken these courses, creating a broader base of people who have knowledge of basic MBA concepts. Another innovation involves a collaboration between a group of comparably rigorous schools that share classes, faculty, and case materials, allowing these schools to provide a broader and more global set of offerings without physical expansion. More information about both innovations follow. Each of these innovations potentially can change what a business school is able to offer to students so that the school can subsequently focus on value-added or differentiated offerings.

The Wharton School of the University of Pennsylvania—Business Foundations Specialization

The Wharton School began offering free, non-credit-bearing management classes taught by Wharton faculty to the public on the Coursera platform in 2012. In 2015, Wharton developed the Business Foundations Specialization, a series of four online, non-credit-bearing, MBA foundational courses in accounting, finance,
marketing, and operations management taught by some of the same faculty who teach those classes in the full-time MBA program. Each course is four weeks long and requires anywhere from three to eight hours of work per week. After completing all four courses, participants can elect to take a Capstone Project class that provides an experiential learning opportunity to work on a project with companies such as Snapdeal and Shazam.

The four foundational courses can be taken free, but to obtain a Wharton Business Foundations Specialization certificate verified by Coursera, the cost per class is $95. Participation in the experiential-learning Capstone Project requires successful completion of the four foundational courses plus a fee of $215. The entire Wharton Business Foundations Specialization certificate is $595. Wharton will waive its application fee to the MBA program for the top 50 learners who earn the Business Foundations Specialization certificate. If admitted, the top five students will receive a $20,000 scholarship.

Wharton continues to expand its reach and offerings. The school has made available a Chinese version of the same Business Foundations Specialization certificate, and, within the last month, has also launched a Marketing Analytics Specialization certificate. This specialization, modeled after the Business Foundations Specialization, features four marketing analytics courses in customer, operations, people, and accounting analytics taken either for free or at $95 per class, and a Capstone Project for $215 for a total cost of $595 for a Wharton Business Analytics verified Coursera certificate.
More than one million individuals have taken the Wharton School’s online courses to date. And more than 50,000 students have registered for the Business Foundations Specialization certificate program.

Yale School of Management—Global Network for Advanced Management

In 2012, Yale School of Management (SOM), along with 24 business schools around the world, created the Global Network for Advanced Management (GNAM). The schools in this network have created an organizational structure that allows its member schools to share faculty, thought leadership, classes, projects, and students. Although there is no financial investment to joining this network, all network members must commit to supporting the activities of GNAM.

GNAM members offers for-credit, synchronous elective courses to schools in the network through an online platform for lectures and discussions. This allows schools to provide a broader set of electives leveraging the expertise at other schools. Schools in the network also provide students an opportunity to travel to another school within the network for a one-week intensive mini-course that takes advantage of localized expertise. The network facilitates knowledge development and sharing by bringing together professors and administrators interested in creating new curriculum and cases, sharing teaching approaches, and integrating the perspectives of business executives and other external thought leaders. Additionally, network schools are able to collaborate to create online case studies focused on global business problems, thus benefiting researchers at multiple schools. Schools can share their cases and teaching
notes through a searchable directory. These activities provide network schools the ability to expand their electives and other academic offerings, extend the network of relationships across schools and geography for the students and faculty, and encourage cross-school research and collaboration.

Building on student interests in GNAM, Yale SOM launched a master’s of advanced management (MAM) degree, a one-year program, open only to MBA graduates from the Global Network for Advanced Management schools. Its inaugural class in 2013 had 20 students and, most recently, the Class of 2015 had 61 students from 31 countries. This program allows Yale to pull from a captive pool of highly qualified students and provides a unique offering.

Both the Wharton and Yale innovations allow their respective universities to expand their geographic and student reach and generate more resources that can help fund other activities within the business school. Innovations such as Wharton’s Business Foundations may evolve to supplement existing core classes or become an alternative to institutions offering the core. Innovations such as Yale’s GNAM may allow schools to share elective courses and faculty expertise such that each school then can focus on deepening its expertise in a particular area.

Consider the following: How can these innovations be an opportunity or threat to business schools? How might these innovations affect the full-time MBA education? How do you see these innovations affecting your program?
### APPENDIX 8: TOP 50 BUSINESS SCHOOL PROGRAMS

Programs and Certificates for Top U.S. Business Schools as of December 2015  
Based on the *Poets & Quants’ Top 50 U.S. Business School 2015 Ranking*

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<th>One-Year MBA</th>
<th>Part-time MBA</th>
<th>Executive MBA</th>
<th>Online MBA</th>
<th>Specialized Masters</th>
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