Managing Business Schools to Weather Economic Change

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Managing Business Schools to Weather Economic Change

Abstract

Many business schools are heavily dependent on revenues from executive education: they are feeling the impact of the current economic turmoil. Schools such as Wharton, INSEAD and Kellogg to name a few, have seen registrations for open enrolment programs plummet and their business for in-company programs shrink as clients cancel, postpone, reduce and in some cases bring management training in-house. Certainly, business schools can react to this challenge by reallocating resources to degree-based programmes (like the MBA) for which demand increases in a recession. Nevertheless, a fundamental question for business schools is “How can one make executive education less cyclical and vulnerable to cuts in a downturn?” The following article presents a series of strategies that business schools can adopt to stabilize executive education and make it less vulnerable to the substantial reductions in discretionary spending that occur in a recession.

Key Words: recession, discretionary spending, cyclicality, evaluation, certification, piggybacking, open enrolment programme, in-company training
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Conventional wisdom has it that during a severe recession, businesses should cut back on discretionary expenditures to preserve cash and financial flexibility. What constitutes discretionary spending is obviously a topic of some controversy; however, most would agree that discretionary spending means spending that does not have an immediate effect on the effective functioning of a company. In a sense, firms borrow from the future to protect the present. While some kinds of training have immediate effects, much of the impact of executive training and education occurs in the longer term. In fact, the marketing of executive education reinforces these perceptions. For example, slogans such as “Build a strategy for the future” and “do you want to build a world class organization” are common in promotions for executive education.

Not surprisingly, this means that executive education is a natural target for reductions in discretionary spending. This is but one of the effects that is having a major impact on the environment in which business schools operate and compete (see Figure 1).

Figure 1

The Current Environment for Business Schools

As a function of the current environment, business schools are adopting strategies that flow from these changes. These include:

1. The importance of segmenting clients for executive education and focusing efforts on clients that are less affected by the current recession. For example, recent reports indicate that liquor sales have fared well since the start of the recession. People see liquor as an affordable luxury and the trend of the past few years that has continued
into the recession is growth in the sales of premium brands. While sectors such as the automotive industry are taking a beating there are always some sectors that thrive in economic downturns.

2. The environment means that there is increased value to executive programs that allow top performers to upgrade. Because companies are forced to reduce “headcount” in the time of recession, the employees that are retained need to be both more productive and more diverse in their skill sets.

3. A recession is the ideal time for schools to build and revitalize their MBA programmes. The quality and quantity of applicants increases during a recession. This clearly presents a strategic opportunity for business schools.

4. Business schools have the opportunity to upgrade their salespeople in the time of a recession (during a recession, there are many salespeople who lose their jobs). This is critical because client assessment takes on new importance when clients are under pressure. The key assessment skill is to know which types of executive education to promote to which clients. If a client does not have the budget to develop a customized in-house programme, it may still have the funds needs to send several top performers to open enrolment programmes.

These strategies are logical and follow from the environment that business schools currently face. Nevertheless, these strategies are largely reactive. All business schools are engaging in these types of strategies in order to minimize revenue declines given the high fixed costs that business schools have.

**Reactions are good but business schools need to do more**

We believe a new approach to the management of executive education is required. One that is pro-active and not reactive. In fact, the ultimate objective of this article is to propose a framework that will allow business schools to build an executive education business that is less cyclical.

As argued earlier, firms borrow from the future to protect the present. Unfortunately for the educational sector, the vast majority of educational activity has long term effects (think of parents struggling to explain to teenagers why matrix algebra and calculus are important!). Executive education is no different: much of the impact of executive training and education occurs in the longer term.

This means that when a recession hits, executive education is one of the first things to go. Despite the resistance of human resources departments, the need to deliver short term financial performance is paramount. The evidence about reductions (or delays) in spending on executive education is plentiful. There are even examples of firms that have decided to cancel customized in-company programmes at the last minute to save travel and accommodation costs associated with programmes; the costs associated with the development and delivery of the programmes are typically sunk due to the long development time needed to develop customized in-company programmes (these costs are significant ranging from twenty to forty thousand US$ per day of training).
Whether this cutting is the “right thing” for companies is another story. Consider:

- IBM’s Global Human Capital Study 2008 reported that the top two concerns of the global CEOs and their Chief Human Resources Officers were: “Building leadership talent” (74%); and, “Fostering a culture that supports learning and development” (39%): two of the key concerns to which executive training is directed. Respondents recognized that these strategies are necessary complements to cost reduction strategies related to downsizing management and layoffs, either voluntary or forced.
- That study also reported that of the Global CEOs, only 14% rated their companies as “very capable of adapting to change.” Yet the recession and the financial crisis have sharpened the need for change management capabilities. Interestingly “change management” is one of the most popular topics that either headlines or is a key module in many training programmes.
- McKinsey’s 2009 Global Survey reported that the two top priorities of companies that are weathering the recession well were “Reduce operating costs” (78%) and “Increase productivity” (38%). Of course, increasing productivity is an objective that is generally achieved over months and years and not days and weeks. In addition, it requires managerial talent and creativity which are also a focus of executive education.

Corporate spending on executive education usually takes one of two forms: customized in-company programs or open enrolment programs offered by business schools. There are also hybrid programmes that are designed for consortiums of companies. Until the recession, the customized in-company programs were growing at the expense of open enrolment programs. Since mid-2008, both product lines have come under pressure. Enrolment (and registrations) for open enrolment programs are down between 25-50% and as noted above, many companies have cancelled or postponed many of their in-company programs.

The challenges for schools offering open enrolment programs are daunting. The Wall Street Journal reported on February 18, 2009 that “as companies cut their training budgets, many schools have seen enrolment in executive education dwindle. Some schools are responding by introducing new short topical courses on managing during the recession: How to Weather the Storm.”

Because of the lead times associated with in-company customized programs, many schools (including IMD, Duke and INSEAD) that focus on in-company programmes remained busy for the first 6 to 9 months of the recession. However, a more difficult selling environment and the previously mentioned cancellations and postponements mean that this segment will go through a difficult period in terms of revenue declines in the second half of 2009 and on into 2010.

Even companies that decide to maintain their training programmes are cutting costs by bringing some of the teaching in-house, shunning lavish expenditures on residential facilities and meals, and reducing the length of programs. In addition, the attractiveness of distance
learning also increases in recessionary times. Executive education providers are increasing the role of distance learning within programmes because travel costs can make up to 60% of the costs of in-company programs. At Duke Corporate Education, they are even experimenting with delivery on-site through the client.

A big question that all these facts raise is: why are firms so quick to invest in executive education when the economy is stable or growing yet so quick to raise the axe when the business comes under pressure? In fact, this is a “survival” question that needs to be answered by many business schools because of their economics.

The standard models of business schools in the past were first, the publically funded school that trained many undergraduate and MBA students. Second, there was the private model which often did not train undergraduates but charged very high rates for a high quality two-year MBA (the best example of this model is Harvard).

Today however, standard models are no longer the norm. Not only have “new animals appeared” but the existing set of business schools has also evolved. There are now multiple models for business schools that consist of selections of the following elements: public, private, undergraduate, MBA and PhD, 1 versus 2 year MBAs, executive MBAs and executive education. There is quite simply no standard model.

In any event, one thing is clear: a significant number of the world’s top business schools depend on a revenue stream that is highly dependent on non-degree based executive training and education. Schools in this basket include the Kellogg School at Northwestern University, Duke, Cranfield, IMD and INSEAD (among others).

The reason that the question is a “survival question” is that the world economy goes through ups and downs from time to time (certainly the current down is more serious than most we have seen). Schools that depend on executive education companies need to have a plan “to weather the storm”. In a nutshell, business schools need to do more than deliver programmes on how their clients should “weather the storm”. They also need a “weather the storm” strategy for themselves. Perhaps a basis to understand this challenge is to start with the product itself: what is executive education? How is it perceived by the organizations that pay for it and how is it perceived by the people who attend such programmes?

**A Template for Understanding Executive Education**

An executive education programme is perceived along 3 important dimensions by involved parties. These are combined to create an overall perception of involved parties for the programme. The three key dimensions are a) the “brochure-described” attributes of the programme (these can be thought of as the product characteristics of the programme), b) the perceived quality of the programme and c) the benefits that the programme delivers. It is important to understand that these dimensions play a key role in determining the way that executive education is perceived: ultimately, they may even explain why executive education is perceived as a discretionary expenditure.
A second issue is that the same programme may have very different perceptions among people from the same company who are involved with the programme. Two key sets of people involved with these programmes are a) the people who attend the programmes (who are generally called participants) and b) the representatives of the company (often human resource managers, training professionals and/or senior managers) who make the decisions to send employees of the company to executive education programmes (the payers). The perceptions that people have of programmes along these dimensions are summarized in the following table.
<table>
<thead>
<tr>
<th>The Involved Party</th>
<th>Product Attributes</th>
<th>Perceived Quality</th>
<th>The Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Payer (Representatives who approve employees’ attendance)</td>
<td>Program characteristics • Program length • Topics covered • Program price • Program format</td>
<td>• Quality of the facilities • Quality of the instructors • Quality of the pedagogy</td>
<td>• Long term employee performance • Quality of decisions employee makes • Common language for employees (in-house prog.) • Retain good employees</td>
</tr>
<tr>
<td></td>
<td>How the perception is created</td>
<td>Websites Brochures Salespeople</td>
<td>Branding (School Reputation) • Rankings • Campus visits • Star professors</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Anecdotes • Retention rates • Progress of employees who attend programs</td>
</tr>
<tr>
<td>The Participants (the employees who attend the programme)</td>
<td>Program characteristics • Program length • Topics covered • Program format • Program Dates</td>
<td>• Quality of the facilities • Quality of the instructors • Quality of the experience</td>
<td>• Signal value to others within company • Add to CV • Great way to spend a week • What was learned</td>
</tr>
<tr>
<td></td>
<td>How the perception is created</td>
<td>Websites Brochures Word of Mouth</td>
<td>Branding (School Reputation) • Rankings • Word of Mouth</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The experience itself • The reaction of the outside world to attending the prog. • The reaction of people within the company</td>
</tr>
</tbody>
</table>

Examination of this table reveals three important observations that provide insight into the frequent classification of executive education as discretionary spending.

1. As one moves from the left side of the table to the right, the attributes that are used to assess executive programmes become less tangible. In fact, the product attributes are essentially “search attributes” (these can be evaluated based on inspection), the quality of the program is an “experience attribute” and the benefits the programmes provide can be described as “credence attributes” (attributes that can only be assessed over the long term and with significant effort).ii
2. Business schools have developed specific strategies that are designed to create/manage perceptions of the three dimensions used to assess executive programmes. These include brochures, websites, salespeople, and school branding. In addition, interested parties have also created or adopted their own strategies for informing themselves. These include talking to others (word of mouth) and rankings which are compiled by third parties such as newspapers: rankings are compiled to meet the needs of people who want to evaluate business schools.

3. While there are differences between the perceptions (and needs) of the two key interested parties along the three dimensions, it is straightforward to see that as one moves from the left side of the table to the right, the differences between the interested parties become larger. In particular, the benefits that are delivered to payers are quite different than the benefits delivered to participants. Moreover, the benefits delivered to payers are significantly more intangible than those delivered to participants.

These three points help to explain why executive education comes under such fire in the time of a recession. First and reiterating a point made earlier in this article, the benefits that executive programs deliver to payers are of the credence type and generally pay out only over the long term. Not surprisingly, in a recession, firms are more focussed on the short term: they reallocate funds to activities that provide immediate return (such as engineering projects to reduce the quantity of rejects on a line or to increase the efficiency of raw material use). Second, while business schools have developed many strategies to create perceptions along the three dimensions, the area business schools are the least sophisticated (and in all likelihood the least effective) is in managing the perceptions of the benefits delivered. Few or non-existent are the studies (or mechanisms) that demonstrate the benefits of executive education to payers. Finally, executive education tends to have immediate tangible benefits for employees who attend executive programmes. In particular, selection for an attending an executive program raises one’s profile within a company. But more importantly, it represents a new line for the employee to put onto his/her curriculum vitae so it contributes significantly to the mobility of the employee (through the signalling content that attending such programmes represents). For employees, the importance of such items is high during a recession due to the fact that many firms engage in headcount reduction. For employers however, making one’s top employees more mobile in context of a recession is not necessarily the best thing to do.

As a result, payers who wish to argue for the approval of funds to send employees to either open enrolment programmes or in-company programmes in a time of recession face financial pressure from above by “cutters”. These cutters want measurable benefits (that are often quantified) for approving spending and they want programs that help to retain good people and make it easier to release people who are not performing well. On both counts, the payer who believes in executive education is helpless to argue the case. This is largely the fault of business schools. Business schools have not provided “executive education” supporters with the ammunition they need to make a convincing case.
A Roadmap for the Future

In this section, we explore potential paths that business schools need to pursue if they want to a) continue to build the basis for a profitable business and b) make the business less susceptible to swings in the general economy. In a nutshell, the following ideas constitute strategies to better insulate “executive education” from the recessionary knife:

1. **Add tangible benefits to executive programs (licensing and the assessment of standards for people who attend certain programmes)**

Until now, business schools have competed fiercely in multiple segments including general management programmes, marketing programmes, financial services programmes, leadership programmes to name a few. However, the programmes that compete are all of varying length (3 days, 1 week, 10 days or even 2 weeks) and contain different elements and knowledge despite being positioned to the same audience. In addition, the standard approach in most executive education programmes is to award a diploma *simply for attendance*. In short, business schools make no effort to assess the knowledge or competence that participants have acquired by attending a programme.

In contrast to business schools, organizations that provide training for management accounting or financial services have been more successful at developing licensed programs that contain standard elements. For example, the CMA and CFA designations now have meaning and earning these designations opens the doors to promotion and higher responsibilities in many organizations. For example, in PepsiCo, the CFA designation is an important qualification for people who wish to progress within the financial management stream. Moreover, an organization such as the Institute of Financial Services headquartered in Canterbury, Kent is more than a training organization for professionals who work in financial services.iii It offers many courses that provide participants with a recognized licence (or certificate) that is recognized by employers (for example certificates in commercial mortgages, mortgage advice and practice and long term care insurance).

A winning strategy is for business schools to adopt a similar approach and award licences or certificates that will ultimately be recognized by employers. This would require business schools to completely alter their approach to managing executive training. While less relevant to the in-company programme business, adding tangible benefits such as a meaningful certificate to a programme would force business schools to cooperate in the establishment of standards in different areas (for example, leadership, B2B marketing and corporate finance). At present such an approach would be revolutionary. Most business schools do not talk to each other let alone cooperate on the development of standards.

Second, the current culture of executive education in short open enrolment programmes (less than 12 days) is a complete absence of evaluation, tests or exams. Traditionally, short executive education programmes are quite expensive on a daily basis. This makes it difficult for a business school to fail a participant (and not award the requisite diploma).
However, in order for a diploma or certificate to have meaning, it is necessary to evaluate and assess the knowledge or skills that participants have gained. As a result, if business schools want to offer a tangible licence or qualification associated with attendance and participation in short programmes, they will need to tackle this issue. Certainly, the schools could make the evaluations easy in order that all participants pass easily. However, this in itself raises issues about the value (or meaning) of a qualification. Perhaps a better route is to construct the evaluations to test the knowledge that is supposed to be gained through the programme. Schools will need to think creatively of how to deal with participants that fail. Options such as remedial testing, re-testing several weeks later (online), discounts to attend special one-day programmes that prepare attendees for the test can be used to cushion the blow of failure. By adding an element like this to short programmes, business schools can provide companies with a tangible benefit obtained through short executive programmes that companies can use as a basis for managing the career paths of employees.

2. *Make intangible benefits tangible: measurement, feedback and greater involvement of business school in before and after measures.*

As discussed above, many of the benefits associated with executive education are long term and are difficult to untangle from the natural development of managers over time as he/she learns to do his/her job better. A key challenge is for business schools to design and adopt mechanisms that measure and demonstrate the value of executive training to employers. There are many options to do this.

The first is the incorporation of a project element into programmes. This can be done in both open enrolment programmes and in-company customized programmes. The projects can be designed in advance of the programme such that they relate to material that is covered in the programme and also to business objectives of the employer. The projects and measured deliverables can then be assessed weeks or months after the programme (to provide direct feedback to both the employer and the business school on the value generated).

A second option is for the employer and the school to establish objectives for improved performance on the part of the employee in advance of the programme. Methods to do this that are fair for the employee need to be developed.

A third option is to ask for a written commitment from the employee near the end of the programme on what they plan to do differently as a function of having attended the programme. This can be done in the form of a contract that is developed consensually with the professors running the programme and employer representatives. Then at distinct time intervals, progress on the elements of the participant’s contract can be assessed. This is valuable because it may point to areas in the training programme that need to be improved (which is useful to the business school), a lack of motivation on the part of the employee (which is useful to the employer) or impediments in the participant’s work environment that prevent the participant from implementing and achieving the objectives in his/her contract (for example, excessive demands on the participant’s time, a corporate culture that is resistant to change or a lack of authority to make the changes).
These are just 3 options that need to be explored if business schools want to make a case for executive education based on intangible benefits. If a school can show a) how to measure intangible benefits (and make them tangible) and b) that the programme in question delivers them, the expenditure on such programmes becomes less discretionary.

3. Fully exploit technological advances to provide benefits of extended programmes

Business schools need to explore new approaches for delivering custom programs. The application of new technologies can reduce costs significantly (35 to 60%) compared to current offerings on a total-cost-of-delivery basis. By incorporating (or converting) elements of programmes into short two-hour modules delivered via the desktop computer, companies may be able to reduce the length of some programmes or reduce the need to make multiple trips to the school (for longer programmes). This will deliver benefits in terms of reduced costs of travel, accommodation and meals as well as classrooms. In addition, schools have to adopt the emerging capabilities in cyberspace for high-involvement interaction in place of an existing reliance on face-to-face classroom interaction. All of these approaches have the opportunity to increase the value delivered to customers relative to the required investment. Naturally, the higher the benefit delivered or the smaller the required investment to obtain the benefits, the less likely executive education becomes a target for cost reduction in difficult times.

4. Cost cutting for clients (try to remove those aspects of the programmes that are not entirely necessary but deliver the same value).

Under this heading, there are many opportunities that business schools can exploit. One avenue is to adopt different approaches for marketing executive education. For example, there is an opportunity to target eco-systems rather than individual companies within a sector. By including executives from suppliers, customers, and other members of the eco-system of firms, business schools can increase the numbers of participants in their programs and benefit from scale economies. The enhanced benefit of building collaborative relationships in the eco-system can also be used to sell this approach. The advancement of social networking technologies will support this strategy.

Another opportunity to reduce costs is to capitalize on corporate events such as general meetings, sales meetings, and conventions as a basis for executive education delivery. This approach, known as piggybacking, has the potential to reduce the costs of in-company customized programmes by as much as 50%. Once the requisite people are gathered together, the costs of transportation are already covered and economies can be realized by piggybacking the renting and reserving of facilities for executive training on top of the reservations/renting that is undertaken for the corporate event. Of course to implement this strategy, companies need to develop the capability to deliver programmes anywhere effectively and efficiently i.e. a mobile SWAT team mentality for executive training. This capability is not easy to acquire as any professor who has attempted to run a programme off-site for the first time can attest. Nevertheless, this strategy provides an opportunity to provide
a tremendous saving to clients while retaining the revenue stream for instruction and administration that exists for onsite programmes.

**Conclusion**

Managing a business school is challenging at the best of times but when a recession hits especially one of the gravity we are currently experiencing, the task becomes almost impossible. Not only does the mix of demand swing massively from executive training to degree-based programmes but fund-raising requires magician-like skills.

Early in the article, we describe the standard responses that are currently implemented by business schools to manage through the recession. However, our thesis is that the basic structure of executive education and in particular short programmes (the longest of which are no more than several weeks with a majority being several days in duration) makes it one of the easiest things for cost-cutters at companies to target when a recession hits. The current perception of executive education can be described “nice to have but can live without” spending.

We present 4 distinct strategies that business schools can adopt to make executive education programmes less of a target. Fundamental to these strategies is the importance of better communicating and demonstrating the benefits that payers are looking for. Second, there is also an opportunity to provide new benefits that payers value. These include innovative ways to provide more impact at a lower cost, performance measurement techniques and paths to create tangible benefits for payers that are at present, non-existent for the vast majority of executive education.
Endnotes


iii Further information about IFS can be found at http://www.ifislearning.ac.uk/qualifications/courses/index.cfm.

iv Interestingly, this also provides a direct incentive to the business school and the professors to ensure that the teaching is focussed on delivering the requisite knowledge.