Can American Business Schools Survive?

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CAN AMERICAN BUSINESS SCHOOLS SURVIVE?

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Abstract

U.S. business schools are locked in a dysfunctional competition for media rankings. This ratings race has caused schools to divert resources from investment in knowledge creation, including doctoral education and research, to short-term strategies aimed at improving rankings, such as placement offices and public relations campaigns. Curriculums are narrowing and training students for their first jobs, not their entire careers. Faced with a prisoner’s dilemma, deans select short-run strategies that reduce research and doctoral education. The result is a looming critical faculty shortage and ultimately the demise of the pre-eminence of American management education.

The worldwide preeminence of American business schools is on the decline, and Internet-based distance learning is not the threat. Rather, leading U.S. business schools, institutions once dedicated to generating new knowledge and disseminating it to the next generation of managers via their MBA programs, are locked in a dysfunctional competition for rankings -- notably the Business Week surveys. This ratings race has caused schools to divert resources from investment in knowledge creation, including doctoral education and research, to short-term strategies aimed at improving rankings. The resulting decline in business doctorates is creating a severe shortage of quality faculty. American business schools are mortgaging their future; they are consuming their seed corn.

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Fifty years ago, American “business education was irrelevant to most students, to employers, and to society...because of the low quality of its students and faculty and because of the narrowness of the training provided. Schools and faculties saw themselves as turning out functional specialists or industry specialists” (Howell, 1984, p. 9). American business education today is reverting to the narrow, functional industry training characteristic of schools in the 1950s.

Section I outlines the critical role of research in generating the knowledge that has fueled the demand for business education. It is this research that propelled U.S. business schools to a dominant position among world business schools and to a high status on their campuses. Section II describes how the race for ratings has led to wasteful over-competition. Section III presents some disturbing evidence on the decline in U.S. business schools. Some of the evidence is anecdotal, and most of it is subject to interpretation. Taken as a whole, however, it suggests that the quality of American business schools is deteriorating. The final section offers some ways to avert the demise of U.S. business schools. None look promising.

I. Research: The Foundation of American Business Education

During the Korean War, the Ford Foundation became interested in enhancing American management via improved professional education as a means to stem communism. A series of papers and reports, culminating in the 1959 Gordon-Howell Report, described American business education as a collection of trade schools lacking a strong scientific foundation. In a historical review, Schlossman et al. (1987) summarized
the views of American business education prevailing in the 1950s and how the Ford
Foundation set out to change the situation:

[U.S. business schools] attempt to “short cut” experience and to furnish advertisers, salesmen, or handymen for banks, department stores, or transportation companies. Few, if any, of the schools attempt to tie business training down to any scientific base of method or material. The experience is narrowing rather than broadening. (p. 10)

[Critics] questioned the proliferation of narrow, excessively specialized courses and the heavy emphasis on detailed descriptions of current practice and rigid rules of business management. They decried what was termed “excessive vocationalism,” and they distinguished between teaching of the basic techniques necessary for entry-level jobs (techniques that, in their view, were better assigned on the job) and the educating of students for careers in business. (p. 10)

At the time, U.S. business schools were held in relatively low esteem on their own campuses as well as in business circles (Schlossman et al., 1987). To change this situation, the 1959 Gordon-Howell Report argued that

Collegiate business education should educate for the whole career and not primarily for the first job. It should view the practice of business professionally in the sense of relating it to what we have in the way of relevant, systematic bodies of knowledge. It should emphasize the development of basic problem-solving and organizational skills and socially constructive attitudes rather than memory of facts or training in routine skills. (Gordon and Howell, 1959, p. 127)

In 1955-56, graduate business education was virtually nonexistent, with only 3,200 MBA degrees awarded in the U.S. By 1997-98, this number had grown to over 102,000 masters degrees – an annual compound growth rate of about 8.4 percent. Nobel laureate Herb Simon, reflecting on the 1950s, concluded,

Accurately or not, we perceived American business education at that time as a wasteland of vocationalism that needed to be transformed into science-based professionalism, as medicine and engineering had been transformed a generation or two earlier… The postwar flowering of management science and of the

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behavioral approach to organization theory provided the substance of applied science we needed. (Simon, 1991, pp. 138-9)

Using the model whereby medical and engineering schools were improved in the 1920s and 1930s through investing in faculty trained as scientists, the Ford Foundation chose five business schools to develop as Centers of Excellence: Carnegie, Chicago, Columbia, Harvard, and Stanford. Between 1954 and 1966, the Ford Foundation spent $35 million on business education reforms (Schlossman et al., 1987). Founded in 1949, the Graduate School of Industrial Administration (GSIA) at Carnegie Tech was one of the early pioneers. Its Ford Foundation grant funded research and doctoral education. Staffed largely with Chicago-trained economists, GSIA started producing an impressive portfolio of research and doctoral students. GSIA described itself as “dedicated to the development of problem-solving abilities based on the use of fundamental knowledge (as opposed to the development of ‘narrow skills and encyclopedic information’)” (Schlossman et al., 1987, p. 14). In 1951, Lee Bach, the first dean of GSIA, wrote,

Careful analysis of management and its various facets has given us many insights into what is the gold and what the dross. But business administration is a new profession. It still operates heavily on rules of thumb and hunches, often unnecessarily so. It is a profession that is growing up rapidly. A crucial part of that growth must be the amassing of careful scientific analysis and research to lay bare what is hearsay in management, what is fundamental skill, and what is transient practice. I am personally convinced that careful, fundamental research in the management fields over the next half century can and will vastly improve our present knowledge and skills. (Bach, 1951)

Besides investing in a science-based research faculty, leading business schools invested heavily in doctoral programs. Carnegie’s GSIA doctoral program was its distinguishing mission (Gleeson and Schlossman, 1992). Doctoral students leverage faculty productivity as research assistants and co-authors. Teaching doctoral seminars
further stimulates faculty research. But most important, doctoral students are the researchers and teachers of future generations.

**Payoffs from Investing in Research**

Investment in research faculty and doctoral programs bore impressive fruit. By the mid-1970s, U.S. business schools were attracting bright doctoral students (Schlossman et al., 1987). Few foreign doctoral students educated in America returned to their native countries to teach because to do so would almost certainly stunt their academic research careers. Producing innovative, rigorous research requires good colleagues, moderate teaching loads, and an environment that recognizes and rewards scholarship. Colleagues read and comment on each other's papers, exchange ideas over lunch, and co-author research. The best professors want to work in such environments because it enriches their own scholarship. In the highly competitive marketplace for ideas, academics gravitate towards institutions with top scholars, and in the field of business, these were concentrated in the U.S.

Likewise, American business schools, propelled by the strength of their research, achieved high campus-wide status vis-à-vis their professional school peers: "Graduate business educators were generally held in high esteem by their academic colleagues, by leaders from all segments of America's political and economic elite, and perhaps most of all, by prospective students who were eager to enroll" (Gleeson and Schlossman, 1992, p. 8). While certain segments of liberal arts faculty viewed their business colleagues with some disdain, they nonetheless acknowledged the relative improvement in business school scholarship. Non-business faculty sitting on tenure review cases and doctoral thesis defenses learned of the high scholarly standards of business school research.
Business school faculties often publish in the leading international social science journals. Nobel Prize winners in economics hold appointments in business schools. MBAs from top schools are prized by corporations “because of the theoretical, abstract intellectual approach that they bring. They are the ones who come in with new ideas and see problems in different ways” (Howell, 1984, p. 12). MBA enrollments have risen dramatically. Business schools have become “cash cows” for university presidents. Wealthy business school alumni have become valuable university donors.

By far the largest payoff from the investment in research was the demand it created for business education. The new breed of faculty used their systematic bodies of knowledge to create innovative curricula. Basic analytic problem solving and organizational skills replaced vocational-style courses that relied on hearsay. Important insights from this research that are now the staples of MBA curricula include:

- agency theory and corporate governance
- the Bass model
- the capital asset pricing model
- capital budgeting using a risk-adjusted weighted average cost of capital
- conjoint analysis
- decision theory
- the efficient markets hypothesis
- game theory
- information economics
- linear programming models for constrained resource allocation
- the Modigliani and Miller propositions
- the multi-attribute model
- option pricing and risk management
- portfolio theory
- pricing strategies
- queuing theory

These innovations came from basic research findings. Their latter practical application followed in much the same way as nuclear power followed the basic theories of high-energy physics and Einstein’s theory of relativity, or as Watson and Crick’s basic
research into the double helix structure of DNA led to today's extensive applied research in genetic engineering. Basic theoretical research precedes applied research. Powering the boom of business education in the 1980s and 1990s was the highly abstract, then-impractical basic research of the 1960s and 1970s.

Initially, at least, the audience for business theorists such as Bass, Black, Cooper, Jensen, Lintner, Markowitz, Miller, Modigliani, Fama, Scholes, Sharpe, and Simon was other academics, not professional managers (Miller, 2000). In fact, most business people were perplexed by the lack of practical application of the efficient markets hypothesis and the dividend and capital structure irrelevance propositions of Modigliani and Miller. But this is true of almost all basic research.

Nonetheless, the emphasis on fundamental, theoretical research caused a revolution in business education. Instead of teaching students a collection of facts about business, schools began to teach students how to think about business problems. Business schools changed from training future managers (vocationalism) to educating future managers. Instead of just describing how firms differ in terms of their debt/equity ratios, schools taught students to think about how capital markets set prices for debt and equity, adjusting for underlying risk, and what might determine an appropriate debt/equity ratio. Business education changed from giving students rules of thumb -- based on past observations that could become invalid in the future -- to teaching them how to arrive at solutions to problems they would likely encounter. Driving these curricular reforms was basic research.

In 1951, Lee Bach at Carnegie's GSIA wrote,
As in the development of the physical sciences and engineering, educational institutions probably must take the lead in original basic research in the area of management, especially since much of this research will inevitably appear slow and impractical — even “long haired.” Moreover, many findings may well be disruptive for long-established patterns of business operations... (Bach, 1951, emphasis added)

While schools cannot directly capture the value of their faculties’ research via patents or licensing agreements, the incentives to invest in research are strong. Prior to 1985, top U.S. business schools competed aggressively in the research arena. Research-oriented faculty attracted other research-oriented faculty. Research is a highly collaborative undertaking. Having talented colleagues working on innovative topics generates ideas and synergies that quickly cross functional boundaries. It was primarily the quality of a school’s research that drove its reputation. Schools with cutting-edge research attracted the best students and top young faculty, as well as gifts and grants, which enabled them to retain existing faculty.

Yet MBA students naturally prefer faculty resources to be focused on teaching rather than research. If unchecked, current students would harvest more of the crop in the form of teaching (to enhance their own training) and invest less in future output in the form of research, eventually resulting in less-qualified teachers and a smaller stock of knowledge. The research faculty helps mitigate this intergenerational resource transfer because they have the incentive to challenge the current students’ demands for more resources devoted to teaching (Demski and Zimmerman, 2000). However, media ratings of business schools, such as the Business Week survey, exacerbate the problem.
II. Media Ratings and Excess Competition

On April 30, 2001 the Wall Street Journal issued its first rankings of U.S. business schools, joining Forbes, U.S. News & World Report, and the Financial Times in rating business schools. However, Business Week (BW) was the first, and remains the most influential, of all the rankings. Since 1986, BW has conducted surveys every two years of graduating MBA students and recruiters. Its 2000 survey polled MBA graduates at 82 schools as well as 247 responding companies that recruit MBAs. The students are asked to evaluate the education they received. Recruiters rank the quality of the students they interviewed and their experience with each school's graduates. BW then combines these rankings to create a customer satisfaction scorecard.

In contrast, the Financial Times and Forbes use primarily quantitative information about schools and their students, such as starting salaries, standardized student test scores, and tuition. U.S. News & World Report uses quantitative data about the programs and also asks business school deans to rank the schools. The Wall Street Journal relies entirely on the perceptions of corporate recruiters. Table summarizes the ranking criteria used by the various business publications.

Because the rankings are based on a variety of criteria, the various surveys produce different results. For example, using the most recent surveys in Table Stanford is ranked first by U.S. News & World Report but 11th by Business Week and 39th by the Wall Street Journal. Wharton is ranked first by both Business Week and the Financial Times but 18th by the Wall Street Journal. The Wall Street Journal ranks Dartmouth as number one, but Business Week ranks it 16th. The average correlation
between the five most recent surveys is only 0.46 (where .00 denotes perfect correlation and 0.00 denotes no correlation).

*What’s Wrong with Surveying Recruiters and Students?*

Why shouldn’t customers (students and recruiters) judge schools based on the perceived quality of the product? Why shouldn’t business schools listen to curriculum suggestions offered by professional managers? To raise their *BW* rankings, why shouldn’t schools survey their alumni, students, and current and prospective recruiters and redesign their curricula to give the market what it wants? The seemingly unassailable reasoning underlying the mass intuitive appeal of the media rankings is that schools should train students in ways that students and their employers want. *BW* merely measures schools’ ability to meet market demands. However, James Howell (1984), one of the authors of the 1959 Gordon-Howell report, questions this logic.

A business school has to serve the profession, but that doesn’t mean that it should always do what the profession wants it to do. Its obligations are to its students and to the profession as it’s emerging, not necessarily as it exists today. I think it’s important that business schools stay some distance away from the business community. Their primary responsibility is not to today’s business community, it’s to the business community of the future and, in a more abstract sense, to society. You’re trying to serve society through professional education... You don’t do students any service by giving them an excessively restrictive kind of training.

Also, in serving the profession you must remember you can’t rely on its leaders to tell you what you need to know. The higher they are in the company, the more likely they are to have one or two pet things: it’s communications, white shirts, finance, ethics, or human relations – what they think is interesting. But you can’t use it directly to construct a curriculum – you have to look at the business community, at industry, at students, and at society in a much less biased way and ask what kind of skills are needed. That’s how you build a curriculum, by analyzing the problems out there. You can’t just ask people. Either you’re going to get silly or incorrect answers or answers that are too self-serving. Or else they want everything to be exactly the way it was forty years ago when they entered
business. They say, “Look at me, I’m successful; therefore, why don’t you turn out little me’s?” (pp. 12-13)

One recruiter refused to hire a school’s MBAs because they were not trained in Lotus 1-2-3, the then current spreadsheet program used at the recruiter’s firm. The MBAs at this school used the then newly released Microsoft Excel, chosen by the faculty as likely to become the dominant spreadsheet software. Even though Excel and 1-2-3 were very similar, the recruiter’s policy was only hire MBAs knowing Lotus 1-2-3. This example illustrates how too close an adherence to the business community’s advice can reduce the educational value of the curriculum.

Other professional schools have confronted the conflict between education and the profession’s demand for vocational training. Partners in law firms would argue for practical courses in law schools and a curriculum focused on preparing students to pass the law boards. Yet most major law schools have rejected this model in favor of educating students for their whole career, not primarily for their first job (Smith, 1995).

**Competing for Rankings**

Business school deans rise or fall with the media ratings of their schools, even though they admit that such ratings are at best imperfect measures of school quality. A decline in a school’s ranking generates angry calls from influential alumni, trustees, university administrators, potential donors, and, of course, current students who fear the devaluation of their soon-to-be-granted MBA degrees. Deans acknowledge the flaws in the rankings, but stress their importance as a student recruiting device especially for foreign applicants, who account for upwards of 40% of many schools’ entering MBA classes (Corley and Gioia, 2000). As one dean from a top-rated business school stated, “The reality is that, independent of whether you believe rankings accurately reflect
quality, the perception of the outside world is [that] it does and consequently resources 
flow to schools who are highly ranked” (Corley and Gioia, 2000).

Schools downgraded by BW usually form a task force consisting of associate 
deans, faculty, students, and alumni to reverse the decline. Recommended changes 
usually include improved student placement services, more non-credit activities (co-op 
programs, leadership training, business skills, internships), improved information 
technology, curriculum reforms, refocused public relations campaigns, and staff 
personnel changes. To improve their recruiter rankings in the BW survey, schools build 
new placement interviewing facilities and provide recruiter amenities such as valet 
parking, vegetarian meals, videoconferencing rooms, cappuccinos, and afternoon snacks 
(Alsp, 2001). Deans of downgraded schools must be seen as doing something, which 
usually means spending real resources (either cash or faculty time) to reverse their slide. 
To project themselves as “always moving, always doing something” in the ‘90s, deans 
touted their “team focus”; now it is “eBusiness.” Corley and Gioia (2000) argue that 
rankings cause some schools “to focus on ‘looking good’ rather than ‘being good.’ ”

Some of these changes result in better education – but are they worth the cost? 
Rarely do the recommended changes seek to improve faculty research or doctoral 
education. And often, the curriculum reforms lead to less rigorous, trendier, vocational-
style courses that students believe will help them obtain their first job.

Business doctoral programs are one of the real casualties of this resource 
reallocation As documented later, most doctoral programs have shrunk, and doctoral 
student stipends have not risen sufficiently to ensure a flow of high-quality students into 
business programs. But more insidious than the redirection of financial resources away
from business Ph.D. programs is that fewer faculty resources are invested in creating new knowledge. Faculty members, now busier with increased teaching and service responsibilities, invest less time in training and working with doctoral students. As a result, Ph.D. students are entering their first faculty appointments with fewer of the skills necessary to succeed as researchers. The outcome is a less valuable stock of knowledge created in doctoral theses and immediately thereafter by the new Ph.D.s.

Some business schools have also embraced a strategy of executive education. Patterned after Wharton’s and Northwestern’s programs, these residential non-credit programs, usually three to five days in length, are quite profitable. Even after faculty fees (ranging from $2,000-$5,000 per day for teaching) the programs throw off substantial cash flows. Although they require expensive, dedicated residential classroom buildings, their cash flows help finance additional spending on the student placement offices and public relations programs aimed at improving corporate recruiter rankings and student recruiting. Exec ed also enhances corporate recruiters’ rankings by bringing middle managers to campus — some of whom will be surveyed by pollsters. However, exec ed diverts faculty time from research to teaching. On a purely pecuniary basis, it is difficult for a faculty member to justify spending a day on research or training a Ph.D. student versus teaching a lucrative exec ed course.

Arms Race

For every school that rises in the rankings, another must fall (holding constant the number of schools in the rankings). Each business school dean is faced with the classic prisoner’s dilemma: actions that seem quite compelling — namely investing resources to
improve one's ranking – yield results that are detrimental to business education in general. Business schools would improve if the resources devoted to the excessive competition for higher ratings (lavish brochures and placement offices, public relations firms, trendy courses) were instead spent on research, doctoral education, and real curriculum improvements. Yet each school faces strong incentives to compete for rankings, because the worst outcome is for the other schools to compete (and be ranked) while it does not. In interviews with deans at leading business schools, Corley and Gioia (2000) report that they all saw their schools competing for rankings for the long run.

To influence the rankings, some schools adopt behaviors that might be questioned as “unethical” in their ethics courses. Several deans of leading schools acknowledge selective reporting to the media of placement data and test scores of their entering classes. Many assert that their competitors game the system. One dean said, “Without an auditing function on any of [a school’s] data, the pressure to destroy integrity is enormous, because a lot depends on [that ranking]” (Corley and Gioia, 2000). Since BW conducts its surveys every two years, some schools assign their top instructors to teach classes in the survey year; the surveyed cohort also receives preferential treatment by the placement office and special receptions and orientation sessions (Frank and Cook, 1996).

Given that most business school deans have five-year appointments and serve less than ten years, they have incentives to focus on short-term rankings rather than on producing research and doctoral education that yield payoffs after the dean leaves office. This standard horizon problem, coupled with the prisoner’s dilemma of media rankings, creates excessive and wasteful competition. Reinforcing the excessive competition are
the current MBA students who want resources directed towards their own teaching and away from future knowledge creation. With a decline in the role of research in business schools and with the shorter tenure of deans, the faculty has relatively less power today than in the past to control this intergenerational resource transfer.

III. Decline in Business Education

John Kraft, Chair of the Association to Advance Collegiate Schools of Business (AACSB, the leading business school accrediting agency) and Dean of the University of Florida Business School, states, “the top ten Ph.D. producers have reduced by one-third the number of Ph.D.s produced annually compared to ten years ago. In the next ten years the number of Ph.D. graduates will approach 50% of the output of the 1990s in the face of increasing demand for faculty” (Kraft, 2001). BW (March 5, 2001, p. 106) reports that about 250 faculty positions are now vacant at the BW top 30 business schools and at the top 40 schools over 400 openings exist. Schools are asking faculty to teach extra classes, leaving less time for research.

Faculty shortages are borne out in Figure 1, which plots the number of business doctorates awarded from 1982–1998. Doctoral degrees peaked in 1991 at 1,265 degrees and have been falling since. Contrast this pattern with the number of MBA degrees awarded, up from about 61,000 degrees in 1982 to 102,000 in 1998. These data include most American universities granting both MBAs and business doctorates. Both of these series are very aggregated. They do not control for the quality of the Ph.D. or MBA programs, nor do they include doctoral recipients in economics, psychology, engineering,

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2 To avoid becoming inbred, universities shun hiring their own doctoral students. Strong precedent exists
and so forth who find teaching positions in business schools. Despite these caveats, however, the data in Figure suggest a growing shortage of doctoral-qualified business faculty. Most of the top-25 Ph.D. producers have shrunk their programs (AACSB, 1998). Moreover, many schools hire part-time faculty and retired executives to staff MBA classes at reduced teaching costs. But these people typically produce little research and have no involvement in doctoral education.

Consistent with the data in Figure 1, Figure 2 plots the number of doctoral degrees in accounting. The advantage of these data over those reported in Figure 1 is that they are from a set of 90 schools that has changed little over time and the time series extends back to 1965. These 90 schools constitute the top accounting doctoral programs. The vast majority of their doctoral candidates accept teaching positions at U.S. schools. The time trend rises from 1966 to a peak of 212 students in 1989, whereupon it begins declining and is now at the same level as in the late 1960s.

U.S. business schools are turning to foreign applicants, primarily from the People's Republic of China and the former Soviet states, to fill their doctoral programs. Figure 3 reports the percentage of foreign students entering the University of Rochester's business Ph.D. program from 1975–2001. Foreign students have risen from around 60% of the class prior to 1990 to over 80% of the class since 1990. But these data do not reflect the shift in the composition of the foreign applicant pool. Prior to 1990, Australia and New Zealand provided excellent students. Students from countries whose legal and commercial institutions are very different from western institutions have replaced this pool of English-speaking foreign students. While the research produced by these

to send doctoral students completing their degree to begin their careers at other institutions.
students is technically sound, it often lacks an essential understanding of western business institutions necessary to generate real insights.

One reason for the failure of business schools to attract the best domestic and foreign doctoral candidates is the robust economy and strong salaries for MBAs existing in the 1990s. But this explanation overlooks the fact that business schools compete with managerial labor markets for doctoral students via the stipends they offer and via the salary and working conditions of faculty. Business schools could attract better doctoral candidates by shifting resources from their excessive competition for media ratings into Ph.D. stipends, faculty compensation, and research, if the incentives existed to do so.

**Emphasis on Practice and Teaching**

The nature of business school research is shifting from careful scientific analysis aimed at creating new fundamental knowledge toward trendy papers that describe current practice. The early research on efficient markets, agency theory, portfolio theory, and option pricing was directed primarily at other academics, not at practitioners or policymakers. In sharp contrast, business school deans seeking to improve their ratings among recruiters often actively encourage faculty research that the news media will cite. In one case, an overzealous public relations department in a ranked business school issued a press release on an unpublished working paper, misinterpreted the findings, and even changed the title of the paper to sensationalize the results. Three recent surveys examined accounting research published in the leading scientific peer-reviewed journals, and all three surveys concluded that many papers are directed at business practice (Holthausen and Watts, 2001; Ittner and Larcker, 2001; Kothari, 2001)
Student rankings of the instruction they receive represent a major component of the BW survey. To improve their student ratings, schools emphasize teaching in their hiring, promotion, tenure, and faculty compensation decisions. While teaching has always played a prominent role in business schools, its importance relative to research has increased. Prior to the BW ratings, research potential was the primary hiring criterion used to judge new business doctorates seeking their first faculty appointments. Teaching ability was secondary, and often a distant second (AACSB, 1998). Now, teaching ability seems to have assumed primary importance. Given the relative increase in teaching importance, faculty members substitute teaching for research. Brickley and Zimmerman (2001) report that teacher ratings rose significantly at the Chicago and Rochester business schools following the first BW rankings, presumably as a result of the increased emphasis on teaching.

**Excessive Specialization**

As noted earlier, one of the major problems of American business education in the 1950s was excessive specialization, even "vocationalism." Students were "trained" for their first jobs, not "educated" for their whole career. Business education did not emphasize basic problem-solving skills. Some fear we are returning to this pattern: "There's still excessive, mindless specialization, and it's just as deadly, just as illogical now as it was before" (Howell, 1984, p. 10). Examine the titles and content of executive education (short courses) taught at one premier center of executive education: "Factory Physics: The Science of Lean Manufacturing," "Accelerating Sales Force Performance," and "Creating and Managing Strategic Alliances." Or consider the one-year master's degrees offered in such narrow topics as financial engineering, service management,
technology management, and information systems. Many deans start these programs to finance activities that will allow them to improve their rankings, such as hiring public relations firms. However, the value of these programs remains an open question.

IV. Possible Solutions
What can be done to reverse the deterioration in business education? One possibility is that business schools could agree to stop competing or to limit the amounts spent competing. Major League Baseball and the National Football League attempt to control ruinous competition among teams for players (Frank and Cook, 1996). The NCAA limits competition among schools for athletes, and disciplines violating schools by excluding them from post-season competitions and prescribing athlete recruiting practices. But such agreements require enforcement mechanisms, including monitoring and disciplining organizations. College and professional sports leagues have reasonably effective enforcement mechanisms. The two major business school trade organizations, however, are probably not up to the task. The Association to Advance Collegiate Schools of Business is primarily responsible for accreditation. With its 650 business school members, the AACSB is probably too big and too diverse to fine-tune its accreditation standards to address excessive ratings competition. And even if the AACSB stopped accrediting offending schools, nothing prevents these schools from seeking accreditation by less-prestigious accrediting organizations or even setting up new ones. The Graduate Management Admission Council (GMAC), a non-profit organization with directors chosen from industry and business schools, is primarily responsible for overseeing the Graduate Management Admissions Test, the primary screening device used by most
MBA programs in their admissions process. While the GMAC certainly has an interest in improving graduate business education, it has few enforcement powers.

**Business Week Gets It Right**

Alternatively, the editors at the various publications might acknowledge the perverse effects of their surveys and either (1) stop publishing them or (2) change them to reflect the quality of the research produced and taught. The first is unlikely. *BW* in particular holds the enviable position of market leadership in rating business schools. Giving this up does not prevent entry by other competitors. Eliminating the student and recruiter surveys likely reduces the news value of the ranking because readers intuitively relate to these measures. They seem to make sense and complement the “popularity contest” rankings of the “most livable cities,” the “best employers,” the “best doctors,” the “best restaurants,” the “best cars,” and so forth.

Or the publications might incorporate faculty research and doctoral education directly into their rankings. As a positive move in this direction, in 2000 *BW* began placing a 10% weight on faculty research by counting articles and citations in both the academic and popular press. Student and recruiter surveys each receive 45% weightings. *BW* awards points to articles appearing in 12 scholarly and professional journals (based on the length of the article) as well as to book reviews published in *BW*, the *Wall Street Journal*, and the *New York Times*, and “books on the BW bestseller list received bonus points” (*BW*, 10/3/2000, p. 89). However, fundamental, path-breaking basic research is not typically published in books, let alone books on the *BW* bestseller list. The *New York Times* never reviewed the Modigliani-Miller theorems or the Black-Scholes option pricing model. Business school deans will begin to push faculty to publish professional
trade books in lieu of traditional research articles. Placing only a 10% weight on research likely undervalues its importance unless the variability of this index across schools is large relative to the variability of the student and recruiter indexes.

Research quality is inherently difficult to measure. The Social Science Citation Index counts citations to papers in peer-reviewed scholarly journals. While the Social Science Citation Index is not a “perfect” measure of research impact, some business schools use it to assess long-term faculty performance. If BW were serious about measuring research quality, its editors would use a broad-based measure of scholarship, such as citation counts, and increase its weight. But we are unlikely to see such a significant change in BW’s popular rankings.

University Presidents Intervene

If just a few university presidents at our most prestigious business schools (based on BW rankings) convened and stopped their deans from disclosing to BW the names of their graduating MBA students, then the BW survey would lose much of its credibility. Once a few universities joined forces, more would follow. Other media rankings, such as those that publish objective data on graduates’ starting salaries and average test scores, will continue to exist. But competition among deans to improve the quality of their entering class and their students’ starting salaries will not divert as many resources out of research and into teaching and public relations as does the BW rankings race.

By dropping out of the BW ratings game, business schools can again become centers of academic excellence in management education. If a few business schools seized the opportunity to become leading academic centers and began investing heavily in doctoral education and developing a strong research faculty, they could dominate
business education and the current decline could be reversed. Only a few schools are needed to begin producing top-flight doctorates and path-breaking research. Exciting research will attract a new generation of bright, energetic faculty. Yes, stipends will have to be increased to attract exceptional doctoral students, and MBA teaching will have to be somewhat de-emphasized to induce faculty to invest the energy needed in training doctoral students and conducting research. Business schools must also change their internal incentive systems. University trustees and presidents must evaluate their business schools based on their research and doctoral student placement, not on media surveys. Faculty must be hired and evaluated more on the basis of their total contribution to knowledge creation and teaching than on their MBA teaching ability. Resources will have to be redirected away from MBA student placement activities, public relations, and MBA recruiting and towards research and doctoral education.

This scenario is unlikely. Strong vested interests, including alumni, existing faculties, and business school support staffs, would surely resist this change. It requires a commitment to a ten-year investment period to reorient a business school from an MBA school to a Ph.D. and research/scholarship institution. University presidents and their trustees must ignore the strong incentives of their prisoner’s dilemma. Their business schools are already highly ranked. Their actions are likely to impose short-run costs on their business schools, while the payoffs require a long time horizon to materialize. This is a classic free-rider problem. Few university presidents have the ten-year horizon necessary to see a return on their investment, and a wealth of economic evidence has taught us that overcoming free rider and horizon problems is difficult.
V. Conclusions

Business schools have always balanced the teaching demands of current students against the desire to expand the knowledge base (via research and doctoral education) for the benefit of future students. In fact, schools began placing increased emphasis on teaching and student placement in the early 1980s (before the BW rankings) as competition for MBA students intensified due to a declining U.S. applicant pool. However, the media surveys have further tilted this tradeoff toward present students and away from future generations. The rankings reinforce incentives to focus on short-run teaching and student placement rather than on long-run knowledge creation.

Without courageous leadership among university presidents, business school deans, and business leaders, the erosion in American business education will persist. Business schools will continue to exist, but top graduate students will pursue doctorates in more exciting fields that reward research, such as the sciences and medical research. Ironically, faculty from former Soviet states and China will be the predominant educators of future American managers. Business curricula will become more diluted with chic vocational-like courses taught by an ever-increasing pool of adjunct faculty because qualified, doctoral-trained instructors are in short supply. The quality advantage held by American business schools over their foreign competitors will shrink. Foreign MBA students will come to U.S. business schools primarily as a way to learn about America, but their educational opportunities will be about as good back home. Foreign MBA programs will begin to attract some of the best American students looking for both a comparable education and exposure to a foreign culture. An American brain drain will occur, as these students become expatriates. Worst of all will be the deterioration of
management expertise as curriculums become more vocational and the growth in the stock of knowledge taught in U.S. business schools shrinks.
References


Kraft, J., 2001. “Address to Membership.” AACSB email communications to members (comm@AACSB.edu, April 19).


Table 1
Summary of Media Ranking Business Schools and the Criteria Used in the Ranking

<table>
<thead>
<tr>
<th>Publication</th>
<th>First Survey Year</th>
<th>Survey Frequency</th>
<th>Weight &amp; Ranking Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Week</td>
<td>1986</td>
<td>Every 2 years</td>
<td>45% graduating students' survey, 45% recruiters' survey, 10% faculty publications</td>
</tr>
<tr>
<td>Financial Times</td>
<td>1999</td>
<td>Annual</td>
<td>20% MBA starting salary, 20% 3-year growth in salary post MBA, 10% faculty publications, 10% international faculty &amp; students, 5% doctoral student placement, 5% faculty with doctorate, 5% women faculty &amp; students, 25% nine other criteria</td>
</tr>
<tr>
<td>Forbes</td>
<td>2000</td>
<td>NA</td>
<td>Comparison of the additional salary earned after receiving the MBA to the cost of tuition based on a survey of 1994 graduates.</td>
</tr>
<tr>
<td>U.S. News &amp; World Report</td>
<td>1990</td>
<td>Annual</td>
<td>40% Survey of business school deans, 35% starting salaries, employment rates, etc., 25% undergraduate GPA, student GMAT score</td>
</tr>
<tr>
<td>Wall Street Journal</td>
<td>2001</td>
<td>NA</td>
<td>Recruiters of MBAs rank schools on 27 attributes, including: Career services office, Past success of recruiters in hiring, Faculty, Willingness of MBAs to relocate, Students' communications skills, Leadership potential, Strategic thinking, Entrepreneurial skills, Value for money invested in recruiting</td>
</tr>
</tbody>
</table>

NA – Not available. Only one ranking published to date.

Figure 1
Total Number of Business Ph.D.s and MBAs Awarded by U.S. Schools 1982-1998

Sources: Ph.D. degrees awarded reported by AACSB schools in annual AACSB surveys of business doctoral production and published in spring issues of Newsline. MBA degrees from "Degrees and Other Awards Conferred by Institutions of Higher Education: National Center for Education Statistics, U.S. Dept of Education. Newsline, AACSB, Fall 1999, p. 25. MBA degrees include approximately 4,000 Title IV participating degree-granting institutions. Title IV schools participate in federal financial aid programs.
Figure 2
Total Number of Accounting Ph.D.s Awarded by U.S. Schools
1966-1999

Source: Hasselback (1980-81, 2002-03)
Figure 3
Percent Foreign Students Entering Business Ph.D. Program at the University of Rochester
1975 - 2001