Rethinking Executive MBA Programs

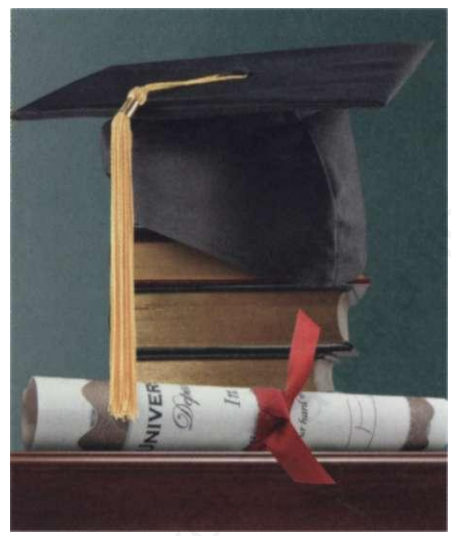
Students and companies have changing expectations for executive MBA programs. How should business schools respond?

BY FRANCIS PETIT

Executive MBA programs are at a crossroads. Introduced nearly 70 years ago, they have become the most lucrative academic degree programs in graduate management education. The executive MBA has always been positioned differently than the traditional MBA. Because they are aimed at full-time working managers, executive MBA programs are formatted to accommodate people with very busy lives and feature amenities that go well beyond those of traditional full-time or part-time MBA programs. In addition to being organized to enable students to complete their degrees in shorter periods, these programs typically provide meals, overnight accommodations and opportunities for exposure to international research and travel.

The first executive MBA program was introduced by the University of Chicago in 1943. By the 1960s, the idea of executive education for corporate managers was firmly established. Large employers saw it as a way to develop the skills of managers while maintaining their involvement in the organization. Since then, the number of executive MBA programs has exploded both within the United States and internationally, with many programs offering joint degree programs and partnerships with business schools in Europe and Asia.

Executive MBA programs historically were designed for managers and professionals who were fully sponsored by their employers. In fact, company sponsorship was a requirement for admission, and it enabled institutions to have a premium tuition pricing strategy. But times have changed,



forcing business schools to adapt to new market conditions and to develop new strategies going forward. Executive programs will need to recognize several trends.

Dwindling Tuition Reimbursement According to the 2010 Executive MBA Council Program Survey, just 30% of students enrolled in executive MBA programs received full tuition reimbursement from their employers, down from 35% in 2006 and 44% in 2001. Students increasingly pay for themselves. In 2010, 35% of the students paid for themselves, compared with 9% in 2001. Surprisingly, the shift has not had a major impact on overall enrollment, as the industry has experienced enrollment growth on the international level. However, this change in tuition reimbursement policies does raise industry red flags that business schools must address, including the extent to which companies will continue to rely on the executive MBA for professional development.

Pressure to Create New Pricing Strategies and Offerings Business schools charged premium tuition prices for executive MBAs for many years, and the sponsoring companies didn't balk. In addition, the schools developed relationships both with the students attending the programs and with high-level executives who backed them. What's more, the schools didn't need to invest in career placement services for their executive MBA students — the students already had jobs, and the schools didn't want to alienate corporations by siphoning away their talent. Now that a growing share of students pay their own way with little or no tuition reimbursement assistance from their employers, programs must find ways to attract degree candidates with new pricing strategies and expanded services.

Growth, but Mostly Overseas The number of executive MBA programs continues to grow. The Executive MBA Council currently lists more than 265 academic and associate member programs, and the caliber of applicants continues to remain high in terms of management experience, salaries and undergraduate grade point average. Although the market in the United States continues to expand, much of the recent growth in the executive MBA market has been in Asia and Europe. Back in 2007,57% of executive MBA programs were considering expansion and/or establishing satellite

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programs worldwide. The trend toward internationalization has accelerated since then. In 2010, more new executive MBA programs were starting up outside of North America than within it. The growth pattern raises questions about how business schools should position future offerings and also about the availability of high-quality faculty.

More Demanding Students In part because of the high tuition they receive, business schools have always paid a lot of attention to their executive MBA students, catering to their needs and making adjustments where necessary. Now that increasing numbers of executive MBA students are self-funding, if anything this group of students expects even more from their programs. They don't hesitate to comment on the quality of the faculty, the focus of the curriculum or the quality of the food and the coffee. The increased scrutiny creates both challenges and opportunities for program directors. To the extent that they are highly dependent on student referrals, executive MBA programs need to take the feedback seriously.

Questions About Rigor Because of the abbreviated class schedule, some critics (including corporate executives, the media and program administrators) consider some executive MBA programs as "MBA Lite," and it's easy to see why. Individuals who enroll in full-time MBA programs spend a minimum of 16 months for a degree; employees in part-time evening MBA programs generally take between 30 and 60 months. However, managers can complete an executive MBA program in 20 to 22 months, and they do it while maintaining a full-time job. To some, the condensed time frame suggests that business school faculty assign executive MBA students less work than is customary for other MBA programs and that they go easier on deadlines. Whether or not that is true, program administrators need to address these perceptions and make the necessary adjustments to satisfy the demands of self-funded students and employers, who want legitimacy.

What Business Schools Can Do

As the trends indicate, the industry is changing and evolving. If the executive MBA is to continue to attract prospective students, institutions must be prepared to rethink their business models.

1. Test the value proposition. Business schools should evaluate the executive MBA value proposition on an ongoing basis to make sure that they're in line with what applicants and employers expect. Is it the opportunity to complete an MBA while keeping one's full-time job? An experience that provides top-notch networking opportunities? A well-regarded brand? A serious academic challenge? Schools may be surprised to find that the elements that managers value most are different from what administrators expect; features they view as selling points (such as flexibility around student work-job conflicts) may actually be seen as negatives by many students.

For example, a recent study of executive MBA students in the northeastern United States found that when students applied to programs, they valued (1) the program format; (2) the institution's brand; (3) the location; (4) the length of the program; and (5) the price. However, after they were accepted and as they were selecting which program to attend, their views shifted. The top two factors (format and brand) remained important, but price became the third most important factor (ahead of location and program length). It seems that prospective students were willing to pay a premium for programs with strong brands and appealing formats but not for the cohort focus and student activities. Interestingly, the makeup of the curriculum was never a major consideration.

2. Anticipate disruptive innovations. As Clayton Christensen argued in his book *The Innovator's Dilemma,* established industry players are often vulnerable to disruptive innovations that are cheaper, simpler to use and targeted to either an entirely new market or a lower-end consumer. Often with the help of new technology, the innovator slowly steals market share from the reigning product before replacing it altogether. Business schools need to anticipate the possibility of a disruptive innovation. With full corporate financial sponsorship on the wane, a competitive new offering — for example, one that is more affordable and lacks high-end amenities — could significantly change the parameters of the executive MBA industry, opening it up to entirely new markets. Business schools must explore new types of offerings rather than putting all of their resources into maintaining their market position.

3. Rethink the current cost structure and pricing model. With fewer students being fully funded by their employers, business schools must prepare to wean themselves from the traditional tuition pricing strategy for executive MBA programs. This will require creativity on two fronts. First, if a business school wants to maintain its premium tuition pricing strategy, it might make sense to offer scholarship funds, which are not typically available for such programs, to attract certain types of students. This might allow business schools to maintain their premium tuition pricing strategy while also creating a market buzz for a specific program.

A second alternative is to redesign the executive MBA offering in a way that allows the business school to lower its costs and tuition price while still generating attractive margins. This could be a win-win for all stakeholders.

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Fonte: Mit Sloan Management Review, Cambridge, v. 53, n. 1, p. 19-20, 2011.