■ M. Johnny Rungtusanatham, Feature Editor, Arizona State University

In this article, Professor Arnoud De Meyer of INSEAD puts pen to paper in providing us with valuable insights into the strategic challenges facing business schools. One challenge of particular interest to this column is the need for and the "business" models adopted by business schools to address the challenge of internationalization.

Strategic Issues Facing Business Schools

By Arnoud De Meyer, INSEAD, Singapore

These are interesting times for graduate business schools. We have to cope with many short-term challenges: graduates have difficulties in landing jobs and demand more from the career management services, professors keep counting on higher salaries, fund raising has become more competitive while funds seem to be less available, and students are more demanding in terms of the content that we offer. But we should not be blinded by these short-term questions only. When one looks somewhat further than these immediate challenges, it's possible to see at least five different strategic changes. These views, which I first formulated during the POMS conference in April 2002 in San Francisco, are mine and do not represent the views of my school. I offer them here as an introduction to the debate.

First, we may have to cope with some oversupply in the sector. Second, business schools are becoming more dependent on revenues from activities that are market sensitive and, thus, more volatile. Third, all of us need to push forward with the internationalization of our schools. Fourth, governments are increasingly interested in education as a business proposition and are liberalizing the education sector all over the world. And, fifth, we all have to understand better how we deploy technology in a productive way. Let me spend some paragraphs on each of these—I will take more space to tackle the issue of internationalization, because I have been an actor and a privileged observer of this over the last years.

Oversupply in Traditional Business Education

Graduate management education used to be offered by a limited number of schools, mainly in the United States. Over the last two decades, however, we have seen an explosion of full-time, part-time or executive MBA programmes, not only in the U.S., where the market seems to have become saturated, but also in Europe and East Asia. China has become the latest frontier for the creation of MBA programmes, and over the last five years, several dozens of schools have opened their own version of an MBA programme there. While this evolution started a bit earlier in Europe (around the mid-1980s), we still witness almost every month the announcement of a new programme that has the ambition to become the new Harvard or INSEAD of the world. Many universities have started programmes on a marginal basis: they assumed that the cost would be minimal, because faculty could be paid on a variable basis, and fixed assets (buildings) were already available. Charging relatively high tuition fees was easy, because there was and still is a high demand for a good degree. On top of this, new providers have joined the market: private consultants and commercial schools are also offering degrees (often of a debatable quality).

Anybody who studies this trend can immediately predict that we will very soon be confronted with an oversupply, in particular in the middle segment of the market, and that some schools will discover that the cost of running a good MBA

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programme (or any other graduate management programme) is a lot higher than what one expected. Marketing costs will go through the roof, and the price demanded by good teachers will go up. The consequence of all this? I predict that quite soon we will see a shake out in the "*business of business schools*." How such a shake out will work out is far from clear. In a normal sector, one would expect a few bankruptcies, a number of mergers and acquisitions in order to rationalize the market. The sector of business schools is, however, quite special: most of the schools belong to universities, which do not have a tradition of merging. They work also by other performance standards than purely economic ones. Thus we may well see an evolution as we have observed in the European airlines industry, where national champions survived far beyond their normal life cycle: the rationalization is gradually coming through the alliances. Will we see a similar evolution in business schools as in the airlines industry? Or will we see an evolution like we have observed in the consulting and auditing industry?

Business Schools' Activities Become More Market Sensitive

Until recently most of the activities in a business school were about "long" graduate programmes: master's programmes of one to two years, PhD programmes, and, in some cases, some undergraduate programmes. These activities have the nice characteristic that they are quite insensitive to market fluctuations, at least in the short- or medium-term. Many schools had and still have an oversupply of candidates for these "long" degree programmes—business administration was a field with a rising interest, graduate students were not too demanding when it came to teaching quality, etc. It was relatively easy to predict the revenues of the school over a number of years. And deans could build a school with a lot of investments and fixed costs over a long period of time. Many have been building a strong standing faculty and have committed to long research programmes.

But since then, many schools have become much more dependent on short programmes and executive education. And these activities are fluctuating with the economic waves. The recent economic difficulties have led to many companies reducing their participation in executive development programmes, or becoming much more demanding in terms of delivery and content (leading to a higher cost structure for us). This means that we may have to reappraise the relative part of the fixed and variable costs in our own schools. We have been teaching executives over the last few years that they had to transform their cost structures in order to reduce the level of fixed costs. The time of applying this principle to business schools has come!

All Business Schools Have to Address the Challenge of Internationalization

Business is becoming global. That has become a motherhood statement. What do business schools do to prepare their graduates for this new challenge? Until recently, they either neglected this whole evolution or considered that throwing in a few elective courses on international management would do the job. In some cases, U.S.- and U.K.- based, or Australian schools, were content with attracting a number of overseas students and faculty members, hoping that such diversity would create sufficient dynamics in the classroom to give students a flavor of what it would be to work in an international environment. While nobody doubts that this strategy can be helpful, it is also limited in the sense that the dominant U.S. or Australian culture often stifles the willingness of a foreign student to come up for his or her different views. Very often this foreign student does not want to differentiate himself or herself. Indeed foreign students often choose to go and study in the U.S., U.K. or Australia to submerse themselves into the local culture, if not to emulate it, and look for a job and a green card. The incentives to stimulate diversity in the classroom are often not present.

Yet the arguments to internationalize the curriculum and the culture of a business school are strong. Recruiters very often look for culturally versatile graduates. The most recent *Business Week* survey of MBA programmes stresses the point: "Older, more experienced international graduates, who often speak several languages, give recruiters the flexibility to send them anywhere in the world, a particularly useful trait in recent times. . . . I do not expect an INSEAD grad to have difficulty living in a different culture." (*Business Week*, October 11, 2002).

But also from the research side the argument is important. Too often concepts have been developed based on the experience of U.S.-based multinationals or entrepreneurs. While their experiences may have general value in many areas, there are management insights which can only be obtained by starting from a totally different viewpoint. In earlier days, Japanese manufacturing techniques were clearly an example of this, but more recently I would like to point out the insights about "metanational" companies developed by my colleagues Doz, Santos and Williamson (2002). If I grossly oversimplify their ideas, I can describe them as a view of internationalization based on the experiences of companies like Nokia, whose origins are in the "'wrong" country (i.e., with a very small home market, or without the necessary technological capabilities at the origin). Insights like this cannot be derived unless one has a true international experience and network of empirical sites.

Different Strategies for Internationalization

Confronted with the need to create an international culture in the school and with the limitations of cosmetic changes in the curriculum, many business schools have tried to internationalize their activities. Having been an actor over the last five years in this internationalization process, I have observed four basic strategies. (In this description I exclude the schools for whom the internationalization strategy is a mere commercial venture: some schools simply franchise their programmes overseas or organize programmes with local teachers, with the only objective of making money, and without any benefit for either their own research or educational activities.) I have given the four categories in a somewhat discretionary way the following labels: (a) importers, (b) traditional exporters, (c) partnering schools, and (d) network builders.

Importers of International Ideas

The first group consists of schools that attempt to bring the world to their campus. They perceive a high value in co-location and bring participants, students, and faculty from all over the world to their campus. The degree to which they can be successful with this strategy depends very much on their brand image and their ability to disconnect themselves from the local environment. Indeed, their success in creating an international culture in the school is based on the quality of the participants, as well as the reduction of the pressure that the local environment exerts on the foreign students. With high quality students who have the mental strength to come up for their differences and who can defend their view of the world, one can indeed create an international culture. This becomes even more feasible when the school is not identified with a particular country or political system.

Two visible and successful examples of this strategy are Harvard in the U.S. and IMD in Switzerland. Harvard does attract participants from all over the world and can confront its participants with faculty who have some international experience. In its executive education feeder programmes in different parts of the world (e.g., China, South Africa, Latin America), Harvard gives the foreign participants a flavor of what a Harvard experience can be and seduces them to go to Boston for the real thing. It has also created a few limited research outposts for the production of international case studies. The model is clearly successful, but may suffer in their internationalization from the image of Harvard, which is well integrated with and representative of a U.S. view of the world. Many Harvard participants will admit that they have been groomed to be informal ambassadors for the U.S. model of business and governance.

IMD in Lausanne (Switzerland) sees itself as the forum where participants from all over the world can meet. Unlike Harvard, it is disconnected from the local socio-economic and political environment, and can pretend to be at the crossroads of international ideas. Yet it does count on having most, if not all, of its participants coming to the "alma mater" and thus limits its reach to a small group of international companies and executives that can afford the time and expenses to fly to Switzerland. The school has been very successful in this strategy, though more in the exchange of ideas than in the production of traditional research output.

Exporters

A second group of schools will argue that it may be impossible to bring students together in one place all the time, but that they want to preserve the co-location of their key staff. They also often see their campus as the sole producer of their proprietary ideas and have moved into exporting these ideas overseas by having a travelling teaching staff. A very interesting example of this export strategy is what the Chicago Graduate School of Business is doing with its campuses in Barcelona, Spain, and Singapore. The school is prepared to reach out to the students and teach in their own environment, but strongly argues that the content is produced in and exported from its central location. The school's promotion argues that as a student in Singapore and Barcelona, one will get the best of Chicago, taught by Chicago faculty.

Many other schools from the U.K. and Australia have organized similar overseas programmes in newly developing markets like China or Eastern Europe. The strategy clearly has advantages: one can reach some of the best and the brightest students who do not have the means or willingness to relocate for their studies, and the investment costs for the school can be kept relatively low. But the success of the strategy is based on at least three critical conditions:

1. The central location of the school must be recognized as a well of knowledge.
2. That knowledge has to be recognised to be relevant beyond the location of the school.
3. The faculty must be willing to travel.

In the case of the Chicago GSB with its outstanding faculty (counting several Nobel prize winners), the first condition is clearly fulfilled. Concerning the second and the third conditions, the jury is still out. Are the materials developed in Chicago indeed always relevant for doing business within the European Union or East Asia, and will the faculty be prepared in the long run to keep on travelling? These questions may become even more difficult to answer for other schools that do not have the research reputation of the Chicago GSB and whose success is often based on a more volatile brand image. I strongly believe that many of the second- and third-tier Australian and British schools that have relative success in Hong Kong, China, or Central and Eastern Europe will have difficulties in defending their positions when the market becomes more sophisticated and transparent, and when they have to rely more and more on local teachers.

Some of the top schools have developed a different angle on this export model. In order to cope with the difficulty of having to motivate faculty to travel abroad repeatedly, or to avoid the opportunity cost related to their constant absence from the campus, they have gone into some form of technology transfer. In the case of the Wharton school, one can see an interesting collaboration with the newly created Singapore Management University (SMU). The faculty of SMU can benefit from the collaboration with Wharton and learn from the technical and pedagogical support offered by Wharton. Meanwhile, Wharton faculty can develop a close relationship with some leading faculty in other countries. MIT has developed a technological approach to this export model—rather than having the faculty travel, they teach through videoconferencing. While it does mean that generations of students are exposed to ideas flowing out of MIT and may become loyal alumni, the benefit for the research-oriented faculty is quite limited.

Partnering Schools

A path that has been chosen by many national champions or local players among a number of business schools is that of a portfolio of partnerships. In many instances, the partnerships start as a student exchange programme, offering students in the undergraduate or graduate programmes the possibility to spend some time (often a semester) in the foreign institution. Since these exchanges are usually limited in the number of students who participate, many schools are obliged to create a series of exchanges. In a few cases, schools have come together in a multilateral partnership (e.g., EBC in Europe) to organize the exchanges among different partners. The European Union has actually

Type of internationalisation strategy	Advantages	Disadvantages
Import	• Co-location of international faculty and students • Strong culture	• Depends on quality of students • Difficult to escape the dominant local culture
Export	• Strong bonds of local students with the central campus • Responsive to local practical needs of students • Limited loss of coordination and integration between faculty • Marginal investments and limited costs	• Limited research opportunities abroad • High opportunity costs for travelling faculty • Long-term sustainability depends on image and renewal of content
Partnership	• Fast internationalisation across different nations and regions • Offers a real value added to students • May lead to research partnerships	• Management complexity • Long-term sustainability doubtful • Quality differences between institutions may lead to conflicts
Network	• Rapid research results • Global diffusion of proprietary knowledge • Internal rotation and exchange programmes • Credibility with local partners	• High upfront investment • Management of a decentralised group of faculty is challenging

Table 1: Internationalization strategies for business schools.

institutionalized the exchange at an undergraduate level among universities of the Union.

Rarely do such partnerships go beyond student exchange and lead to faculty exchange or common research projects. This type of internationalization definitely benefits the students. But it is not clear what the learning for the educational institutions is in the long run. Many of the exchanges are based on personal relationships, and the vigor of the partnership disappears when the personalities involved change. Often the management of the partnerships becomes a complex organisation. Schools are not always of the same quality level, there are difficulties in comparing standards for graduation, etc. And there is a risk that the foreign experience becomes a gimmick, an interesting personal experience, but not a really great learning moment.

More interesting are the partnerships where universities design common programmes. Alliances of this nature exist between London Business School and Columbia University, or HEC (France), New York University, and London School of Economics for the organisation of Executive MBA programmes. The effort to commonly design programmes and the interaction between the students during the whole length of these programmes offer the promise of longer term partnerships in research and course development.

Network Builders

Some schools have gone one step further and see the need to go beyond import, export, or ad hoc alliances and partnerships. They follow what international companies or professional firms have done in the creation of overseas subsidiaries or offices. Given the fundamental characteristics of a business school, one can, in my opinion, argue that these schools are in the process of building a network when they decide to station faculty abroad on a permanent basis. An interesting example of this is the European/French school, EAP-ESCP. This school is the merger of two business schools, of which one had, from its beginning, campuses in different countries. Currently they have campuses in Paris, Madrid, Berlin, and Oxford. My own institution, INSEAD, decided four years ago to go ahead with a second full-fledged campus in Singapore (our European campus being in Fontainebleau).

The difficulties of creating such a network are quite high. The investments can become relatively high, and the integration of a decentralized faculty is a major challenge. Few schools have done this before, few role models are available, and most schools that experiment with a network of decentralized groups of faculty move very carefully into this uncharted terrain. But the pay-offs can be equally high. Research can be localized, and research results can be globally used in the educational programmes of the school. It is easier to attract a diverse group of faculty. And, the school can offer internal rotation and exchange programmes.

In practice one finds many mixed forms of internationalization strategies. Schools combine export with partnership strategies, or complement their network with partnerships. For example, INSEAD has combined its network of two campuses with an alliance with the Wharton School and some smaller partnerships in Brazil, France, and Greece.

Experience with Implementation—The Case of INSEAD Singapore

The internationalization of business schools is an ongoing and fairly recent process. Little is yet documented about successes or failures. It would, therefore, be imprudent for me to offer an evaluation about the implementation of the four strategies I have described above. I can, however, as an actor in the implementation of INSEAD's network strategy, share some ideas about key challenges and success factors.

When INSEAD decided to set up its second campus in Asia, we did so because we had already extensive experience in the East Asian market. Through its Euro Asia Centre, created in 1980, but with activities that go back to the mid-1970s, INSEAD's faculty had experience with teaching executives and carrying out applied research in East Asia. We did not start from ground zero, so to speak. The creation of a campus was a logical next step, not the jump that it may look from the outside. We chose Singapore as the basis for Asia after a careful evaluation of different locations on the basis of six criteria:

1. What is the quality of life for professionals?
2. What is the quality of the academic environment in which we will find ourselves?
3. How good are communications (both electronically and physically) with the other campus?
4. How supportive is the business community for the project?
5. What is the international outlook of the location?
6. What is the socio-economic stability of the location?

While other locations in Asia score perhaps better on some of these criteria, our final evaluation was that the overall score of Singapore on these criteria was the most attractive. While we received some support from the Singapore government, it must be said that our decision was, in the end, based on the long-term attractiveness of the city-state, and not on short-term incentives.

In our implementation, we always keep in mind that we want to create a global learning network. We want to avoid creating an impression that the Asia campus is an outpost or a subsidiary of the campus in Europe. This may, in the short run, be difficult for one cannot deny the differences in size and the Asia campus has to rely, in many cases, on the support from Europe. But the long-term goal is that of a global learning network, and our whole management effort is aimed at creating that network of equals.

Integration of two faculty groups is probably the biggest challenge. Building a physical investment, creating a local administration, creating the business, etc., have their own challenges. But the biggest challenge for an academic institution is the development of its intellectual assets—the faculty and the research output. In order to achieve this, we have, from the start, managed the faculty in the two locations as one, and have invested heavily in electronic means of communication and exchange programmes between the two campuses.

Having several campuses always creates suspicion that one of them is better than the other. In order to avoid this, we have kept most of the management systems common to the two campuses—recruitment of faculty is a common decision, and admissions of students is done without knowing what their preferences are with respect to the choice of campuses. There is heavy investment in ensuring that students on both campuses get the same quality experience and the same opportunities in terms of career management. We can safely argue that today we have achieved our objective of having the same high level of quality on both campuses in terms of both educational experience and research.

Increased Government Interest in "Education as a Business Proposition"

A fourth strategic change is that the 'business of business schools' is considered by many governments around the globe to be quite attractive. As I have already argued, this will lead to an increase in competition. Some countries (e.g., Australia and Malaysia) have developed, more recently, a real business out of attracting foreign students into their national universities and commercial schools. For Australia, the estimate today is that there are up to 140,000 fee-paying students per year, obviously in a wide variety of schools. And the contribution of "education for foreigners" to the GDP of Australia is substantial. Malaysia has seen a wild growth of foreign institutions debarking in Kuala Lumpur or other major cities, attracting students not only from the local market but also from surrounding countries and from Central Asia. Singapore has recently announced that it is interested in developing itself as a hub for educational services, and intends to offer, to a limited set foreign schools, an interesting environment for their development. (A subcommittee of the Economic Review Council of Singapore and chaired by the author formulated recently these recommendations.) As another example, one of the former ministers of education in France had set a target of attracting more than 800,000 foreign students and graduate researchers to France.

In most of these countries, there are a few factors and actions that seem to come together. Governments do want to liberalize and privatize part of the educational sector. In many cases, they contribute to the creation of a brand image for their country as a good place to go and study. And in some cases (but not in all), they attempt to create some transparency in the private educational sector.

Technology May Change Our Business Process Drastically

The fifth strategic challenge is echoed in this question: What will be the influence of information and communication technology (ICT) on the business school sector? Many of us have dreamt about, if not experimented with e-learning. While some of us have succeeded with e-learning, for most of us, large sums of money have been lost with e-learning, and we must admit that the whole experience has been a sobering one. INSEAD's experience with online learning is still continuing, but we now realize that if there are interesting opportunities for us in e-learning, most of these opportunities are in blended solutions.

I personally believe that the technology revolution in business schools is not over. But the revolution will, perhaps, be less in the use of pure e-learning as such, but rather in a gradual shift from instructor-led learning to more resource-based learning. In the classroom, the teacher is still the boss. With the new opportunities offered by e-learning and telecommunication, students can take more of his or her learning into his or her own hands.

The other major change we may expect is the influence of ICT on the productivity of our research. R&D in business schools has not seen any major change or productivity increase over the last 40 years. The time it takes to develop case studies, to develop new models or to carry out large-scale empirical research, and the effort it takes to get a paper published and to diffuse the results of the research is the same as when I started as a young research assistant. I do not believe that this situation is sustainable. Like any other field, we need to search for methods to become more productive. Business developed lean development methods or time-based competition in R&D, what are we going to do about research productivity in business schools? I am convinced that ICT offers us the possibility to do something about it by providing new forms of diffusion, more streamlined literature reviews, faster publications, commonality of empirical databases, etc.

A Last Thought

These five challenges are based on my own experience with an independent graduate business school. There are many other issues that need addressing, and which may be more pronounced in schools that are integrated into a university system. I also did not address directly the issue of the shortage of faculty. But I hope that my five points can contribute to a debate of where we go with our institutions.

References

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NAMES IN THE NEWS

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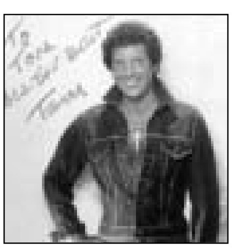
Gregory Todd Jones, a doctoral student at Georgia State University, was awarded the Best Doctoral Student Paper stipend at the recent Southeast DSI meeting in Williamsburg for his work entitled, "Dispute Resolution, Uncertainty, and the Expected Value of Evaluative Information." Jones expects to defend his dissertation this spring. Concurrent with completing his doctoral studies, he will complete a J.D. from the Georgia State University College of Law and a M.P.A. from the Andrew Young School of Policy Studies. Jones has accepted a post-doc research fellowship with the Consortium on Negotiation and Conflict Resolution. **gjones@quantlaw.com**



It's not unusual for DSI President Tom Jones' name to remind some people of another Tom Jones who performs in Las Vegas. Just for the record, this photo is of the non-academic Tom Jones.

Kee Young Kim was honored by the Graduate School of Business Administration at Yonsei University in Seoul on the occasion of his retirement as a faculty member of the Graduate School of Business Administration. A Sangnam forum ("Business Partnership and C(Collaborative)-Transformation") was held in his honor in mid-February, followed by a banquet to celebrate his many accomplishments, including his leadership in the establishment of the Asia Pacific Region of the DSI. Kee Young will continue to serve as the Sangnam Chaired Professor of Management at the Yonsei Business School.
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Stephen Lunce, Texas A&M International University, has become an official in charge of penalty time keeping for the Laredo Bucks hockey team, the newest franchise in the Central Hockey League. Lunce, a professor of information systems and director of graduate programs for TAMIU's College of Business Administration, has been a passionate hockey fan for more than 30 years. "If you like athletics, speed and an intimate setting, hockey is the ultimate sport," Lunce said. "It's really a treat to come to the arena every night and have the best seat in the house."
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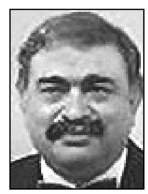

Naresh K. Malhotra, Georgia Tech, will have the fourth edition of his *Marketing Research: An Applied Orientation* (Prentice Hall) available in May 2003. The book has been translated into five languages (Chinese, Russian, Spanish, Portuguese, and Hungarian), as well as four English language editions (North American, International, European, and Australian). Malhotra's latest book, *Basic Marketing Research: Application to Contemporary Issues*, was published by Prentice Hall in 2002.
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