Porter’s five forces reconsideration: Model of joint MBA programmes and schools’ fusion in the industry of Management Education as a counter point of competitive environment model
Thi Thu Tra Nguyen

To cite this version:

HAL Id: halshs-01183845
https://halshs.archives-ouvertes.fr/halshs-01183845
Submitted on 11 Aug 2015

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers. L’archive ouverte pluridisciplinaire HAL, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d’enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.
COMMUNICATION POUR LA BIENNALE 2015 « COOPÉRER »
Identifiant : N° 448

RESUME

Réexaminer le modèle des « cinq forces de Porter » : La fusion des écoles et la formation de MBA jointe en tant que contrepartie du modèle d’avantage concurrentiel.

Dans le cadre d’une recherche doctorale sur le management stratégique des formations du management type MBA, le modèle des cinq forces de Porter (1980) est réexaminé sous l’angle du mouvement actuel de rapprochement des business schools. Considérant le fait que la formation au management est une industrie spécifique, il apparaît que les MBA conjoints (joint MBAs) modifient la hiérarchie et la dynamique des cinq forces de Porter. L’objectif de cette communication est de démontrer que la coopération dans l’industrie de la formation en management a été développée comme une façon d’obtenir un avantage concurrentiel.

Mots-clés: avantage concurrentiel, la formation du management, cinq forces de Porter, les programmes de coopération, les MBA joints

Auteur : Tra NGUYEN, doctorante 2ème année du Laboratoire Interdisciplinaire de Recherches en Sciences de l’Action (LIRSA) - CNAM

ABSTRACT

Porter’s five forces reconsideration: Model of joint MBA programmes and schools’ fusion in the industry of Management Education as a counter point of competitive environment model.

In the scope of our doctoral research, business education is considered as an industry where business schools act as firms. Our thesis focuses on the strategic management field, with aims to explore how schools revisit their MBA curricula. Within this framework, joint and merged MBA programmes have been analysed as a counter point of Porter’s five forces (1980): rivalry among competitors, entry barriers, substitutions’ threats, buyers’ and suppliers’ bargaining power.

The objective of this communication is to demonstrate that Porter’s five forces have been modified. The competitive advantage is driven by the cooperation inside the industry itself. Instead of being threatened and bargained by the forces, the industry of management education challenged the forces with its cooperative programmes.

Keywords: competitive advantage, management education, porter’s five forces, cooperative programmes, joint MBA programmes

Author: Tra NGUYEN, 2nd year doctoral student of LIRSA- CNAM
Business and Management Education as an industry

In the literature, Management and Business Education is frequently considered as a business industry. Consequently programme curricula, programmes activities and management are regularly analyzed from a business management angles (Datar, Garvin, Cullen 2010, Dameron, Durand 2008, Thomas 2007, Spender 2007, Starkey et al, 2004). Concepts used in business and management such as marketing, strategic management, change management, etc. are interpreted and discussed in the business school and management education context.

The establishment of management education as an academic discipline was reinforced by the developments in the world's economy, the growth industry on a global scale, and the attempts to introduce economic disciplines in universities in the 18th century. In 1999, Ka-ho Mok use the research case on education development in Hong Kong and Mainland China to examine and demonstrate how market forces have affected educational development. In that context, the author mentions the definition of “marketisation” of education, which means that higher education has been significantly affected by emerging market forces. The research also introduces the idea of competition and cost recovery in the field of education:

“Students are no longer students but rather are clients or customers; their admission is about access instead of selection. The curriculum design encompasses cores and options from which students as customers can choose, rather than a fixed set of subjects. On the management front, a shift from collegial to managerial forms of university governance has been widely recognised as a “global” trend…”

The strong market forces have caused business schools to re-orient themselves to be more sensitive to market needs, and produce employable graduates to suit the employers’ demands. Courses and curricula are “market-driven”, stressing practical and applied value. Governance and pedagogical service delivery have been eventually “marketized”. When measuring performance and results, the academy no longer look simply at educated graduates but pay more attention to the salary, the professional outlooks, the employers’ scopes, etc.

Another case study in American’s top business schools is conducted by Zell (2001), who examines the consequences of schools becoming market driven. Not only schools shift towards privatization and search for revenue generating products such as executive education programmes, schools raise up their tuition fees in order to bring in the revenues and resources, the “economic forces” to compete with other business schools. Although it would have been unusual before, today it is not uncommon to hear professors talk about students in terms of “customers.” Zell argues that there are three factors leading to the emergence of this term. First, the dramatic rise of MBA salaries, which began in the 1980s. MBAs became known as “golden passports” to success. Second, the rising cost of the MBA degree itself. “Students are paying more, so they want more,” said one professor, representing the sentiments of many other professors who explain that students now calculate the value of each course to get their money’s worth. Third, the rankings were also influential in forcing professors to view students as customers—a concept that not all professors were eager to accept. Tired of being shaped by market forces, many schools feel compelled to develop an identity, or a “niche in which it can excel”, or saying in other words, to differentiate itself from the other business schools.

MBA as a flagship product in the industry of management education

In the framework of Zell’s above-mentioned research (2001) and his individual interviews with faculty in different universities, one professor described the MBA programme as the product of business school and advocated differentiation:
“Our main output as seen externally is the MBA degree. But there is no agreement about what we should be producing. All the MBA programmes want to be highly ranked so there’s a lot of competition, and it seems to me that we should find something that we do really well and build an MBA programme around it, which is not what we’re doing now.”

The Master of Business Administration (MBA) is a master’s degree which attracts people from a wide range of academic disciplines (according to the business dictionary) or is a career development generalist degree for those with significant relevant work experience (according to the AMBA). The MBA is the only global degree in the sense that its model of education is relatively homogeneous worldwide (Mintzberg, 2004). The MBA designation originated in the United States, emerging from the late 19th century as the industrialized countries and companies sought out scientific approaches to management. Despite the fact that United States business schools continue to dominate the global landscape (Pfeffer and Fong, 2002, Durand 2008), local competitors now exist in Europe, Asia and Latin America (Antunes and Thomas, 2007, Blackman, 2011).

Considering that management and business education reacts under market-driven forces, business institutions (in this paper called with a common term: business schools) can be expected to converge towards a model for the diffusion of management ideas, upon Engwall (2007). However, the industry of business education is not similar to other industries, due to the special characteristics of education. Students are basically uninformed customers who are not acquainted with the offer and who rarely use the product twice. Reputation is thus a crucial factor for those choosing a particular education. High-prestige and well known institutions will accordingly be more attractive to students and will consequently have better opportunities for selecting good students and thus a better chance of producing elites. The reputation of an institution will affect the demand, the selection and the success of its students.

Network building is also another prominent feature. Engwall argues that the most important element is not the content of the education but the social interaction with fellow students, since they create contacts in professional life and opportunities for future network and social mobility. With such characteristics and mechanisms, a new programme faces considerable recruitment problems, because if a programme is new, it is inevitably less known and less legitimate in the eyes of prospective students; nor does it have alumni in positions to hire future fellow students.

**Competitive strategy and Porter’s five forces analysis in the industry of Business and Management Education**

“The essence of formulating competitive strategy is relating a company to its environment” (Porter, 1980). The centre of attention in literatures on competitive environment model could be the description of Porter’s Five Forces - environmental conditions that firms should find out to influence them in favour firms’ performance and results. The five forces are entry barriers, threat of substitutions, bargaining power of buyers, bargaining power of suppliers and rivalry among current competitors. A breakdown on the five forces is made in regard to the industry of business and management education and it shows a specific character of each force in this industry.

**Entry Barriers:**
Regarding entry barriers, the six major sources are 1) economies of scales, 2) product or service differentiation, 3) capital requirements, 4) switching costs, 5) access to distribution
channels, and 6) government policy. These first five major sources are not really relevant to the industry of management education. In this industry which is considered as a highly regulated industry by government policies and quality organizations (Pfeffer 1978), entry barriers are high for a new programme and product differentiation is difficult. Pfeffer states that universities will be rather hesitant in admitting new disciplines or founding new academic institutions. Such hesitation is often not only an expression of an attempt to protect academic standards but also an effect of ordinary competition for scarce resources. However, new pedagogies and new disciplines emerge as a response to new management problems. Other barriers mentioned by Porter are overcome easily either by copying, hiring a competitor’s employers, or by purchasing materials, know-how from industry suppliers and consultants. An example would be the number of MBA programmes offered only in the US. According to the Business school data trends and 2010 list of accredited schools issued by AACSB International (Association to Advance Collegiate Schools of Business), the US offers the world’s largest number of MBA programmes with over 4000 programmes offered by 454 institutions. How could student distinguish and choose among these 4000 programmes?

**Rivalry among existing competitors**

The intensity of rivalry among existing competitors creates further competitiveness to the industry. The domination of US business school is strengthened by the reputation and ranking of US schools. Hence, US schools are at good position to apply much higher tuition fees, to recruit and pay well top professors, to provide better research conditions and knowledge transfer.

Recently, European business schools improved their position in the business education industry. European schools also are successful in circulating international students inside Europe, with the major political change such as the Bologna Agreement on change of degrees, the success of programme ERASMUS and the numerous programmes non-Anglophones provided by French, Germany and Spanish business schools over other regions in the world. (Witte, 2006)

Finally, Management education in Asia is booming (Blackman S., 2011) and catching up in the global race of prestige business school, with four Asian schools in the Financial Times top 20 global MBA rankings (China Europe International Business School (CEIBS), Hong Kong UST Business School, the Indian School of Business, and the Indian Institute of Management). Those who made the choice to pursue an MBA in Asia are comforted with this recognition. Whether the goal is to establish themselves ahead of U.S. candidates for international jobs, or simply to have a degree that carries the cachet of regional knowledge, it is clear that students outside the US have found a new destination for management education (Blackman S., 2011).

Looking at the global picture of the developed and emerging zones of business schools, these numerous business and management schools are put together in a fierce competition to recruit students, keep high quality of teaching and research, provide and maintain a high and well-paid alumni, keep good relation with the business community, etc. Downstream, the number of MBA graduates who enter the workforce with similar equipped knowledge and know-how is rapidly rising. Mintzberg pointed out in his book Managers – Not MBAs (2004) that by then only in the US, nearly one million individuals are equipped with the MBA title, while the number of year 1958 was 4,041 graduates, 1964 of 6,375 graduates, 1966 of double graduates of 12,998, 1976 of 42,654 graduates. Competitive rivalry in this management education is thus very intense.
Substitutes:
Graduate management training has long been regarded as a “golden passport” for many jobs, with the MBA degree making its place as the dominant product of business schools (Datar et al, 2010). The pressure from substitute products is rather from the same product in different modes (MBA one year programmes, MBA part time programmes, executive MBA programmes, hybrid MBA programmes, online MBA programmes) as well as abundant specialised master programmes in the field of management and business, or corporate training and development programmes. In a job placement data drawn from the case studies that appear in the book “Rethinking MBA: Business Education at a Crossroads” (Datar, Garvin, Cullen, 2010), the two domains where a significant majority of full time MBA graduates from top ranking MBA programmes take jobs are financial services and consulting, where the salaries are the highest. This makes it very difficult for companies in other sectors to compete for graduates. However, the volume of graduates that took jobs in these two sectors dramatically decreased after the 2008 financial crisis. Post-crisis, many lucrative jobs in financial services, and to a lesser extent in consulting, have simply disappeared. At the same time, financial services and consulting firms are substituting non-MBAs for MBAs. Datar et al’s interviews with senior managers in banks and consulting firms confirm that both industries now need to recruit more technically competent people rather than generalist MBA graduates. Other types of MBA or double competence of Management and Techniques could be the substitutes’ threat in this industry.

Buyers:
Students are forming the main buyers’ power in this industry. Unlike normal buyers, students have to go through an admission process to become buyers. Given the nature of management disciplines, management education has no or few admission requirements in terms of fundamental knowledge. Business schools apply the management science as knowledge for action; hence in the place of fundamental management knowledge, business schools require experiences from candidates. Engwall (2007) indicates that education has special characteristics regarding students as buyers. The first characteristic is that students are not acquainted with the subject matter on offer - if they were, they would not have enrolled. That means buyers buy the products only when they do not know about them. Secondly, even if they greatly appreciate a particular educational programme, they will not enrol for it twice, which proves that buyers will buy the product just once regardless of the quality of the product. Thirdly, even after its completion they may be uncertain whether the education they have received was good or bad, since the real test of education appears only after a considerable period of professional life. On the whole the three characteristics together mean that students are uninformed buyers.

Suppliers:
To complete the picture of educational management industry analysis following Porters’ five forces, the bargaining power of suppliers need to be examined. Specifically in this industry, suppliers could be regarded as insiders’ group - that is the faculty that ensures the teaching activities and the outside business environment that provides business practice and cases for the courses. Ultimately, however, the gathering of practical cases from the outside environments depends on faculty or assimilated consultants. Faculty typically includes professors of various ranks: assistant professors, associate professors, and (full) professors, usually tenured (or tenure-track) in terms of employment contracts. Though a main supplier, faculty is considered as an institutional asset. In order to gain bargaining power, faculty members are required to have an up-to-date understanding of business practice gained through recent managerial experience, consultancy… In short the teaching has to be linked to practice as well as theory. Roland Perez (2011) considers management as “knowledge for action”.

N° 448 M&A in Business Schools vs. Porter’s five forces 5/10
Management must be learned mainly for and through practice, in contact with practitioners (those who are actively involved), without too much concern for academic research (those who simply observe). Nevertheless, most management researchers also collect knowledge on the field that is identifiable and, when appropriate, transferable and taught. Hence, a business school is formed normally by faculty with multiple hats professor – researcher – consultant – published author. Bennis and O'Toole (2005) also points out the dual missions that most business schools claim, that is educate practitioners and create knowledge through research. Whilst historically, business schools have emphasized the former at the expense of the latter, this diverse expertise raises faculty’s bargaining power as suppliers to business schools.

M&As in MBA and Business schools

“The factors that determine the intensity of competitive rivalry can and do change” (Porter, 1980) In the industry of management education, changes in rivalry typically take the form of mergers and joint ventures. Among US business schools, considered as the “high strategic stakes”- schools or European’s “catching up” business schools, the trend is to merge schools or programmes from different regions, countries, continents and “blend and cross-sell” strategy (Durand, 2008).

Numerous schools opened a campus overseas and increase their multi-national campus network. “Trium MBA” is an extreme example of cooperation between NYU Stern Business schools, HEC Paris the LSE London School of Economics and Political Sciences, allowing their students to earn an MBA issued jointly by the three schools after 10 weeks of courses in London, Paris, New York, Shanghai and Sao Paolo. However, the most common and expense-free concept is exchange programmes. This formula was extensively applied in the late 2010s. Schools are no longer competitors but partners in order to bring students more choices to get some different perspectives and culturally rich, globally oriented experiences, and to bring employers more globalised competent graduates. As Dean Robert Bruner of University of Virginia’s Darden School of Business puts it, there is no more powerful force in academia than peer pressure. Schools should help one another.

Looking at the same issue, Durand and Dameron (2008) focus on strategies and map different scenarios. They consider that

“management education institutions are developing strategies to connect with each other, and to create a European area for management education.”

Business schools and universities echo one after another with multilateral strategies, with programmes taught in English, with joint curricula from various countries, various campuses. With the US schools running ahead in the field, these programmes illustrate a growing awareness of the need for Europe to offer a unique programme globally. Based on nine internal challenges of management education and seven external social and economic factors, Durand and Dameron draw out five scenarios for the future of business schools and management education. Each scenario is described using a set of key variables which could be found in the forces building the business model and that of business schools (Hawawini 2005, Iniguez de Onzono and Carmona 2007 or Porter 1980) : i) the sources and structures of funding; ii) career attractiveness for faculty; iii) networks of alliances or mergers; iv) institutional or market dominance; v) new entrants; vi) management as a science or not and vii) role of e-learning. Among the five scenarios, Durand and Dameron consider that mergers and acquisition are evidence that schools search to become international, gaining visibility through size and economies of scale.

In France, for example, a number of M&As were recently implemented among business schools. On the one hand, international competition in higher education has increased, on the other hand the French government desires to bring together French educational and research

---

1 M&As: Mergers and Acquisitions
establishments (universities, Grande Ecoles, research laboratories, etc.). In the case of the merger of CERAM Business School and Group ESC Lille to become SKEMA business school, the stated objective was to create clusters large enough and with sufficient resources to be competitive at an international level. In the case of the merger of BEM-Bordeaux Management School and Marseille-based Euromed Management, to create KEDGE Business School, the stated objective was new modes of teaching and personal development, connecting and strengthening its global community network and promoting responsible management practices. Finally, in the recent merger of Rouen Business School and Reims Management School to form NEOMA business school, the stated objective was to “serve the interests of as many stakeholders as possible. The new entity will leverage the skills and strengths that have made excellence the hallmark of both founding schools”. A thorough study could reveal further objectives to reshape the Porters’ five force competitive environment model.

**M&As in the industry of Management Education as a counter point of competitive environment model**

Business schools moved from a position of full rivalry towards a position of cooperation within certain niches. As demonstrated in the above analysis of Porters’ five forces, reputation could be used as a thread to reinforce each force in this industry of management and business education. Meanwhile, Durand and Dameron (2008) present Business school mergers as means to become international, gain visibility through size and reputations, build economies of scale. Engwall (2007) also mentions the reciprocal relationships of competitions and influence between management education and other factors such as “governments, media, professional associations and management consultancies.” Therefore, frequent criteria to create room for cooperation are media, governments’ quality organization, accreditations or rankings. When they create alliances among top-ranked or multiple-accredited, Business schools reinforce automatically the barrier to other new entrants. Moreover, they create new barriers of highly qualified and reputed institutions which are difficult to overcome for other competitors. That is easily seen through the promotion of new identities: an identical MBA programme of triple accreditations (AMBA, EQUIS, AACSB) and top European rankings available in different big cities of France. In the case of NEOMA Business school, the Director of MBA confirmed that NEOMA “is the only triple-accredited 1-year MBA in central Paris and the only financial times ranked 1-year mba in central paris”.

In the case of SKEMA, the school’s headlines stated that “Only five years after its birth, SKEMA Business School has obtained its EQUIS accreditation renewal, and this for five years! With this five-year accreditation, our school joins the small circle of “fully EQUIS accredited” schools – eight in France and 69 worldwide.”

---

2 Extracted from the presentation of press conference of SKEMA – One world, One education on 30 June 2009 by Alice Guilhon, Director of Ceram Business School and Jean Pierre Raman, General Director of Group ESC Lille, and the Financial Times interview with Alice Guilhon on “Why business schools need to merge” – 14 September 2012
3 Stated as the vision of KEDGE business school – a new business school model, available on its official website (http://www.kedgebs.com/)
4 Retrieved from the announcement of Rouen Business schools and Reims Management school of the merger on 24 April 2013 – recorded by Bloomberg Businessweek online, by Francesca Di Meglio 25 April 2013
5 The three accreditations called the triple-crown are AACSB (Association to Advance Collegiate Schools of Business, EQUIS (European Quality Improvement System) and AMBA (Association of MBAs)
6 Extracted from first page of catalogue and website of NEOMA Full time MBA (http://www.executive-neoma-bs.com/) and from individual interview with Professor Raymond Ouellet, Director of NEOMA full time MBA
7 Extracted from website of SKEMA business school (http://www.skema.edu/)
Finally, the director of MBA at KEDGE also emphasised on the triple accreditation:

“*I am particularly proud of what we have achieved with our Global MBA programme, which is now ranked #43 (and 3rd in France) among the Top 100 Executive MBAs worldwide by the Financial Times! I am proud of the fact that our institution is one of the 0.5% of Business Schools worldwide holding ‘triple-crown’ accreditation.*”

Regarding substitutes’ powers, Datar et al. (2010) find that business schools have modelled themselves increasingly on other academic disciplines in order to secure their foothold in the university. Schools are capable to offer other types of MBA or a mixed programme of management and technical skills as the market demands. Accordingly, the evolution of the management education industry cannot be explained only by the pressure from substitute products. Hence, with the opening of different choices of MBA in different modes, with joint or exchange programmes with different overseas schools and with the fusion among accredited schools, Business schools create substitutes from within. They open a wide range of choice of “products” for students, while keeping their images, reputations, accreditations and rankings. Kedge, for example, makes full use of the heading specializations of each campus of its new merger to offer students a wide range of majors from Wine and Spirits Management in Bordeaux’s campus, the heart of wine caves and grapevines; or Maritime Management in the two international port cities: Marseille and Shanghai.

Reputation is considered as a crucial factor for those choosing a particular education (Engwall, 2007). However, the reasons a student may choose an MBA are shifting now because holding an MBA is no longer a guaranteed position or an immediate raise. “Students have long gone to business schools to gain entry to high-paying jobs in investment banking, private equity, and hedge funds.” They prefer to equip themselves with several competences to secure future job requests. Moreover, the globalization on business affects how to choose a programme. Applicants for business educations do not only constitute from one country or at the same stage of professional life. The needs and characteristics of candidates are changing, with a solid international dimension in their demands. Business schools thus have to cooperate for new exchange or joint programmes in order to answer the demands of candidates and students either with international dimension or with multi-functional dimensions. All the three business schools (SKEMA, NEOMA, KEDGE) keep their campuses from different cities of France and automatically create new campus in Paris – the capital of France, before adding international campuses (KEDGE: Shanghai in China, SKEMA: Suzhou in China, Raleigh in the USA) or creating study trips internationally to enrich their curriculums with international and multi-functional dimensions.

Zell (2001) analyses that in business school in particular, faculty plays an important reputation role as all reputation mechanisms (accreditation bodies, ranking systems) weigh high the factor of faculty, the qualification and credibility of faculty, the research quality and publication rate of articles in leading journals, etc. As a result of their cooperation, business schools mutualise faculties and enrich their availability of joint and merging resources, hence gain its frequency on leading journals’ publication or in position in the reputation mechanism.

---

8 Extracted from first page of catalogue of KEDGE Full time MBA and from individual interview with Professor Michel Gutzatz, Director of KEDGE MBA
**Figure 1: Porter’s Structural analysis of Management Education Industry**

**Conclusion**
Looking separately at the five forces cannot bring the whole picture of the competitive strategies driving this industry forward. Analysing each force could help a firm to position itself in the industry, but could not have the structural analysis of the industry, which is the aim of Porter’s five forces model. Hence, the links and influences between these five forces are more interesting and complete when relating a firm, in this case a business school to its environment.

From the above analysis, government policy and quality organisations are the main forces to maintain the barriers to the new entrances. The rivalry of the industry forces business schools to produce their own substitutes with different programmes, or with joint programmes made by merging and cooperating entities among existing schools. The latter trend of joint and merged programmes creates new direction in the industry towards the other forces. With such self-generated substitutes, schools reduce the threat of substitutes and raise the barriers of entrants. Since suppliers are both insiders’ and outsiders’ resources, schools reduce eventually the power of suppliers by enriching their merged faculty resources, forcing them towards updated and substitute programmes and using them to enforce the quality of the product as a requirement of quality barriers and attract buyers. Schools also indicate to buyers- candidates and students, that the distribution channels could be far-reaching, and hence reduce the pressure on schools. In parallel, candidates are highly selected to join the programme and design their own programmes in different destination, or with different technical electives that better suit them or prepare them for future positions.

With this angle of view, the Porter’s five forces driving the industry competition has been deformed and is driven by the cooperation inside the industry itself. Instead of being threatened and shaped by the forces, the industry of management education mitigated the forces with its cooperative programmes.
References:

- Blackman, Stracy, MBA Admissions: strictly business, US News April 2011
- Durand Thomas & Dameron Stephanie (2008), The future of Business schools, Scenarios and strategies for 2020, Palgrave-MacMillan, Houndmills (UK) and New York (USA)
- Perez, Roland (2011) , To what extent is management research legitimate?, Redesigning Management Education and Research, Challenging Proposals from European Scholars, Edward Elgar, pp81-92
- Report of the Management Education Task Force to the AACSB International Board of Directors, 2002