

CREATING EXECUTIVE MBA PROGRAM VALUE THROUGH DEMING'S NEW ECONOMICS PRINCIPLES

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ABSTRACT

The purpose of this research is to determine what Executive MBA Deans and Program Directors can learn from Dr. W. Edwards Deming specifically with many of the principles he discussed in The New Economics for Industry, Government and Education. (MIT, 1994). To determine this information, the current state of the Executive MBA sector will be examined along with select theories from Dr. Deming. Upon completing this research, conclusions will be generated as to the exact lessons, if any, that can be learned and potentially applied from this catalyst that ignited the quality revolution worldwide. The goal of this initial study is to determine if Executive MBA Deans and Program Directors can benefit from the "Deming Thinking" in order to move the Executive Education sector forward.

JEL: M1, M31, M200

KEYWORDS: Executive MBA, Deming New Economics Value, Graduate Management Education

INTRODUCTION

The Executive MBA sector is changing and evolving (Petit, Fall 2001). Recent trends including the steady and precipitous decline in full corporate financial sponsorship, which dipped to 24% in 2013, illustrate a major paradigm shift in the industry (EMBA Council, 2013). Business School Deans are further under immense pressure to grow tuition revenues and often view the Executive MBA as the cash cow product within the portfolio (Simmons, Wright and Jones, 2006). Furthermore, as will be illustrated within the literature review, Executive MBA Programs are also experiencing increased student expectations, perception issues and enrollment development challenges. With this as a background, the purpose of this research is to determine if Executive MBA Deans and Program Directors should incorporate, and to what extent, the principles that Dr. W. Edwards Deming discussed in The New Economics for Industry, Government and Education (MIT, 1994). With this as the focus, this paper will discuss the history of the Executive MBA sector, the current trends, select Deming Theories from The New Economics for Industry, Government and Education and the potential application of these theories.

LITERATURE REVIEW AND BACKGROUND

The Executive MBA - History

Executive MBA Programs are MBA degree programs targeted to current working managers in a cohort, time efficient and convenient format (Petit, Fall 2011). These programs, which incorporate a premium tuition pricing strategy, have significant "bells and whistles" beyond the traditional full time or part time MBA programs. This premium tuition pricing can be seen by the simple example that the tuition price for the Executive MBA Program at New York University Stern (\$163,000 in 2013) is equivalent to the price of a Porsche 911 Turbo S. ("Upfront, FT, October 21, 2013). Some amenities associated with Executive

MBA Programs are as follows 1.) convenient time efficient format, 2.) academic materials, 3.) food throughout the program, 4.) overnight accommodations for residencies, and 5.) technology.

The first Executive MBA Program was launched by the University of Chicago in 1943 (Petit, 2008). In 1954, Michigan State University, at the request of the "Big Three" automobile manufacturers, launched an Executive MBA Program for General Motors, Ford and Chrysler (FT 2010 Ranking). By the 1960s, Executive MBA Programs started to gain momentum as they not only allowed for the long term development of corporate employees but these programs also allowed these employees to keep their jobs while going to school (Petit, Fall 2011). By 1981, the Executive MBA Council was formed due to the growth of these programs worldwide (FT 2010 Ranking). In addition, over the next subsequent decades, the sector would witness significant growth within the United States and now abroad. Some programs now even include joint collaborations and partnerships with Business Schools across continents (FT 2010 Ranking). However, as stated previously, the Executive MBA sector is changing and evolving and the purpose of this next section is to illustrate these paradigm shifts.

Trends in the Executive MBA Industry

The original purpose of the Executive MBA was for "executives" to obtain the MBA in a time efficient and convenient cohort format and for students to receive full corporate financial sponsorship from their employer. Hence the premium tuition pricing strategy. In fact, full corporate financial sponsorship, at one point, was a requirement to obtain admission. (Petit, Fall 2011). However the environment has changed. The Executive MBA Council, which is the official international governing body for Executive MBA Programs, has measured the precipitous drop in full corporate financial sponsorship which can be seen in Table 1. More specifically, in 2001, 44% of all students enrolled received full financial sponsorship from their employer (2003 EMBA Council). In 2007, this figure declined to 34% (2011 EMBA Council) and in 2011, this figure further declined to 27% (2011 EMBA Council). Furthermore, in 2012, this figure was 25.9% (2012 EMBA Council) and in 2013, this figure further declined to 24% (2013 EMBA Council). As one can see, there has been a steady decline in full corporate financial sponsorship. Yet this precipitous drop has not had an impact on enrollment. In fact, enrollment for these programs has been growing over time on the international level (Petit, Spring 2012). More specifically, according to the 2013 Executive MBA Council Membership Survey, within the Uniform Group Analysis that examines the same groups of EMBA Programs from 2009-2013 (to factor out entering new members), the mean class size has only decreased one percent over a five year period (44.1% in 2009 to 43.3% in 2013). While full corporate financial sponsorship has been decreasing, there has been an increase in self sponsored (self paying) students which can again be seen in Table 1. More specifically, in 2001, 19% of all students enrolled were self financially sponsored (2003 EMBA Council). In 2007, this figure increased to 33% (2011 EMBA Council) and in 2011 this figure further increased to 37% (2011 EMBA Council). In addition, in 2012, this figure was 39% (2012 EMBA Council) and in 2013 this figure increased again to 41.2% (2013 EMBA Council) As one can see, students are encumbering an increased burden and responsibility for financing these programs. Such an indicator is a major paradigm shift in the industry. Please find a summary of this data in Table 1.

A second indicator that must be discussed are the increased student expectations that are a direct result of paying increasingly out of pocket (Petit, Fall 2011). For example, when companies were fully sponsoring financially, Business Schools did not offer career management services so as to not negatively impact the relationship with the sponsoring company with students departing for new jobs (Petit, 2011). Now Executive MBA students are demanding some form of career services and Business Schools are currently trying to meet this new expectation (Petit, Spring 2012).

Table 1: Executive MBA Industry – Sponsorship Trends

Year	Percent of Fully Financially Sponsored Students	Percent of Self Sponsored Students (Paying Out of Pocket)
2013	24.00%	41.20%
2012	25.90%	39%
2011	27.00%	37%
2007	34.00%	33%
2001	44%	19%

Source: *Executive MBA Council Annual Membership Program Surveys*

This is further reinforced in the 2013 Executive MBA Council Conference (October 2013) where “Career Services” was one of five Tracks of the Concurrent Sessions offered grouped with “Strategic Initiatives”, “Curricular Innovations”, “Operations Advancements” and “Globalization” (EMBA Council Conference Agenda, October 2013). In addition, since students are paying more out of pocket, they are increasingly critiquing the entire "EMBA Experience" inclusive of the curriculum, the facilities, and even the catering (Petit, Fall 2011). Such an indicator is major and must be taken seriously.

The third market indicator is how these programs are sometimes perceived. More specifically, there is a belief, by some, that Executive MBA Programs are "MBA Lite" as it takes only 20 to 22 months for executives with demanding jobs to complete the MBA while it takes full time students 18 months and part time students 36+ months (Shinn, July/August 2003). Some believe that the faculty assign less work in the compact EMBA class schedule as well as are easier on deadlines due to the profitability of such programs (Petit, Fall 2011). Either way, such a market perception cannot be positive and thus illustrates how the sector is changing and evolving. Lastly, it should be noted that the sector continues to grow however this growth is on the international level. More specifically, the 2007 Executive MBA Council Survey results indicate that 57% of programs were considering expanding with adding satellite programs worldwide. In 2010, there were more new Executive MBA Programs launched outside North America than within it which reaffirms this trend (EMBA Survey, 2010). Overall, there may be a saturation of Executive MBA Programs within the United States and Business School Deans, in search of new tuition revenue opportunities, are looking beyond North America (Petit, 2008). As a result, such an indicator is also significant within this sector.

Deming’s Theories - Dr. W. Edwards Deming: A Brief Biography

W. Edwards Deming (1892-1993) is known for igniting the quality revolution worldwide. He conducted a thriving international management consulting practice for over forty years within multiple and diverse industries (Deming, 1993, p. xiii). From 1950 until the 1980s, Dr. Deming, who was also known as the “Prophet of Quality” by *The New York Times*, worked extensively in Japan on the management of quality and his legacy includes significantly impacting the economy of this nation (Deming, 1993, p. xiii). Dr. Deming was also the author of several books including *Out of the Crisis* (MIT, Center for Advanced Engineering Study, 1986) and *The New Economics for Industry, Government and Education* (MIT, 1994) along with 171 papers (Deming, 1993, p. xiii). Dr. Deming received multiple industry awards including The National Medal of Technology, the Distinguished Career in Sciences Award from the National Academy of Sciences, the Shewhart Medal and the Second Order of the Sacred Treasure awarded from the Emperor of Japan in 1960 (Deming, 1993, p. xiv). In addition to his doctorate from Yale University, Dr. Deming received over fifteen (15) Honorary Doctorates (honoris causa) inclusive of Harvard University and Yale University. Dr. Deming also led four (4) day executive education seminars which had 10,000 participants per year for over ten years (Deming, 1993, p. xiv).

Overall, the impact of Dr. Deming's revolutionary ideas have been compared to Copernicus, Darwin and Freud and he has been noted as "fathering" the third phase of the industrial revolution (The Deming Institute, "The Man").

Select Deming Theories (The New Economics)

Dr. Deming believed in the management of quality. He defined quality as follows: "A product or service possesses quality if it helps somebody and enjoys a good and sustainable market" (Deming, 1994, p. 2). He believed quality is the responsibility of management and thus poor management infects the entire organization (Orsini, 2012). Dr. Deming further believed in the importance of managing a system and knowledge of a system (Orsini, 2012). He believed in the interdependent nature of a system and that management must ensure all employees understand the aim and interdependence of that system. Dr. Deming further believed that a system needs an outside view to fully transform itself since the system cannot fully understand itself otherwise. He discussed the beautiful music of a symphony as a true interdependent system (Deming, 1994). In addition, Dr. Deming believed in a System of Profound Knowledge which includes Appreciation of a System (previously discussed), Knowledge About Variation, Theory of Knowledge and Psychology (Deming, 1994). This thinking and its application to higher education can be seen below.

The prevailing style of management in higher education must undergo transformation. This transformation means change of form, shape or appearance. Perhaps a better word to use is the Greek word metanoia which means penitence, repentance, reorientation of one's life or spiritual conversion. This transformation requires an understanding of the system of profound knowledge and the application of its principles in every kind of relationship between individuals. The system of profound knowledge includes an appreciation for a system, knowledge about variation, theory of knowledge and psychology.

(Maguad, 2011)

Knowledge About Variation is the importance for management to understand the distinction between common sense causes for variation and special causes for variation. Theory of Knowledge indicates that rational prediction requires theory based on observation and thus information in and of itself is not knowledge (Deming, 1994). Lastly, the importance of Psychology rests on understanding people and their intrinsic verse extrinsic motivations. Dr. Deming further believed in cooperation verse competition among organizational units and even competitors. Such cooperation among functions will allow an interdependent organization to truly thrive. Such cooperation among competitors will allow for an industry to grow and expand its parameters (Deming, 1994).

Dr. Deming further developed various theories on "Deadly Diseases" that are within all industries and are causing "waste and losses". For the purposes of this research, the four "Deadly Diseases" that will be discussed are as follows 1.) Constancy of Purpose, 2.) Emphasis on Short Term Profits, 3.) Mobility of Management, and, 4.) Use of Visible Figures Only. In terms of Constancy of Purpose, Deming believed that organizations either did not have or have lost sight of their Constancy of Purpose and true aim (Deming, 1994). Emphasis on Short Term Profits, according to Deming, leads organizations to worship the "quarterly dividend" which inevitably leads to short term thinking and no long range planning (Deming, 1994). Mobility of Management is also a pervasive problem, according to Deming, as leaders do not truly understand customers and intricacies of a company as they do not have a history with the

company (Deming, 1994). The Use of Visible Figures Only alludes to the fact that management does not take into account difficult to measure indicators when formulating strategy. Such indicators can include the true impact of a happy verse unhappy customer which can have a significant and an immeasurable impact on a brand (Deming, 1994). Lastly, Deming believed that the customer, while a rapid learner, knows nothing and only expects what you and your competitors have led this person to expect. In addition, questions such as "what business are we in" as well as "what business will we be in five years from now" should be continually asked by management (Deming, 1994)

DATA AND METHODOLOGY

An analysis of the trends of the Executive MBA sector will be presented. In addition, select philosophies of W. Edwards Deming will also be presented. An analysis and discussion will ensue on how the "Deming Thinking" can potentially add value to a sector that is changing and evolving.

RESULTS AND DISCUSSION

Upon illustrating the current trends of the Executive MBA industry as well as select theories of Dr. Deming specifically from *The New Economics for Industry, Government and Education*, it appears that the "Deming Thinking" can potentially add value to Executive MBA Deans and Program Directors in moving the sector forward.

It would appear rational and proactive for Deans and Program Directors of Executive MBA Programs as well as Deans of Business Schools to continually ask "What business are we in now?" and "What business will we be in five years from now?" The market trends discussed, especially the dwindling level of corporate financial sponsorship, potentially illustrate a sector and market susceptible to change. Areas such as cost structure of programs coupled with the future role of distance and blended learning are sample directions that the industry can follow. Interestingly, a recent poll completed by Executive MBA graduates from the Class of 2010 (N=1,080) has indicated that an Executive MBA degree cannot be "successfully replicated online" ("Upfront, FT, October 21, 2013). However, the role of online and blended learning within Executive MBA Programs still needs to be determined. Therefore, proactively addressing these sample ideas can allow an institution to take the lead on the direction of the sector as opposed to operating status quo. In addition, Dr. Deming's views on the customer "knows nothing" and only expects what we have led this person to expect can also be applied. For example, the major paradigm shifts within the Executive MBA sector can allow the Executive MBA Product to move in an entirely new direction. A new strategic and planned expectation can then be set with the customer (i.e. current and prospective students) since he or she is a "rapid learner". Proactively repositioning the new expectation can allow an institution to be a market and thought leader as opposed to a follower. So long as the newly repositioned product possesses "quality" and thus "helps somebody and enjoys a good and sustainable market" then this would be very positive.

In terms of competition verse collaboration, it would make sense, in some ways, for Executive MBA Deans and Directors from competitor schools to collaborate more frequently. Dr. Deming stated that ..."It is easy to manage a business in an expanding market and easy to suppose that economic conditions can only grow better and better" (Deming, 1994, p. 4). With that said, it is easy or easier to potentially manage an Executive MBA Program in an expanding market. As a result, collaboration among all "Executive MBA Stakeholders" could potentially be helpful especially in a contracting market. More specifically, at this moment, the research has indicated that the Executive MBA growth has matured within North America. It would appear that now more than ever Executive MBA Deans and Program Directors do not have a choice but to collaborate more frequently in order to expand the parameters of the sector. Without this additional cooperation, Business School would be left fighting for a mature finite market of prospective students.

System of Profound Knowledge

Furthermore, Dr. Deming's views on the System of Profound Knowledge can also be useful to current Deans and Program Directors of Executive MBA Programs. The System of Profound Knowledge, as previously stated, has four components including Appreciation of a System, Knowledge About Variation, Theory of Knowledge and Psychology. In terms of Appreciation of a System, Executive MBA Deans and Program Directors as well as Deans of Business Schools must ask what role these programs play within the system of a Business School and University. Since interdependence is a critical element of any system, Deans' of Business Schools must communicate effectively how each function and unit is interdependent among the faculty, administrators and staff of an institution. A true understanding of this interdependence can allow a Business School to operate more effectively as a whole. Otherwise, each program (full time, part time and EMBA) would potentially operate independently and in a silo which is not in the best interest of a Business School. The Appreciation of System is very welcomed for Executive MBA Deans and Program Directors.

Knowledge About Variation is also important and useful for Deans and Program Directors of Executive MBA Programs. These professionals must realize that there will always exist common sense causes as well as special causes for variation especially with targeted enrollment goals. So long as these individuals can achieve targeted enrollment goals with slight variation it would be in the best strategic interest of a program. Distorting the reasons for variation and then trying to lessen the gap of variation by admitting students who do not meet the admissions criteria can have a long term negative impact on a program. For example, current enrolled Executive MBA students who meet the admissions criteria may become angered and think less of a Business School and brand, if a percentage of students within their cohort do not meet the criteria (Petit, 2012). Theory of Knowledge can also allow Executive MBA Deans and Program Directors to make rational predictions based on observation. This observation can include not only data and statistics released by the Executive MBA Council but also discussions with current and prospective students as well as with Human Resources and other corporate professionals who support these programs on various levels. In addition, Psychology is important as it will allow Executive MBA Deans and Program Directors to understand the differences between intrinsic and extrinsic motivation especially with igniting intrinsic motivation within all Executive MBA stakeholders inclusive of prospective students, current students, faculty, staff and alumni.

Deadly Diseases

In terms of the select "Deadly Diseases", Executive MBA Deans and Program Directors can learn some lessons. For example, in terms of Constancy of Purpose, the administration of a Business School must ask what is the purpose of having an Executive MBA Program within the portfolio and what is the aim of the program? At many institutions, as stated previously, Executive MBA Programs are considered a "cash cow" product within the portfolio. Are there other reasons, besides their profitability, for Business Schools to offer Executive MBA Programs? Some additional reasons for offering such programs can be for the executive contacts that are made, the potential for increased indirect resources as well as a platform for the faculty to teach to this professional level. Either way, a Business School must understand its entire purpose of offering such a program and the specific aim of the program. Emphasis on Short Term Profits, as a Deadly Disease, can certainly hit home for Executive MBA Deans and Program Directors. Short Term Profits, within the scope of Executive MBA Programs, can be applied to tuition revenue for the current fiscal year as well as the current ranking of a program (Petit, 2012). There could be a belief that if enrollment goals are met this fiscal year and we are currently ranked than the program is in fine shape. Unfortunately, such a mindset, as Deming indicated, can lead to short term thinking and no long range planning. Emphasis on Short Term Profits can also lead an Executive MBA Dean and Program Director to admit students not fitting the admissions criteria in order to meet the targeted enrollment goals. Such actions, as previously stated, are not in the best long term interest of a program.

The third "Deadly Disease" of Mobility of Management can also teach some key lessons especially within the Business School sector. *Forbes.com* recently indicated that within the Top 40 Business Schools, 25% of Business School Deans have been replaced over the passed year and 38% of current Deans have been in their positions less than two years. (Symonds, May 13, 2009). Furthermore, AACSB recently reported that on average Business School Deans have been in their positions only about five years and 25% have been in their positions three years or less while another 25% have been in their positions less than a year. (Alsop, April 20, 2004). The *Financial Times* also reported that the 2011-2012 AACSB Dean's Survey indicated that the average Deanship of the United States based Business Schools was 5.73 years and the median was four (4) years (Bradshaw, October 21, 2013). Overall, the Mobility of Management may be a significant issue within Business Schools thus directly or indirectly impacting Executive MBA Programs.

The final "Deadly Disease" that will be discussed is the Use of Visible Figures Only and this can certainly impact Deans and Program Directors of such programs. As stated previously, some visible indicators of Executive MBA Programs are current and future enrollments as well as current rankings. Yet there are other indicators that are difficult or unknown to measure that can have a potential significant impact on a program and examples include 1.) faculty/student interaction and exchange, 2.) culture of an Executive MBA Program (collaborative verse competitive), 3.) seamless administrative processes (invoices, registration), and 4.) visibility of management on-site (Petit, 2012). Each of these difficult or unknown to measure indicators can potentially have a profound impact (positive or negative) on the EMBA experience of a student. However one can potentially assume that such indicators are not taken into consideration during the strategy formulation process for programs. Perhaps Executive EMBA Deans and Program Directors should not only strategize about the visible indicators (rankings/enrollments) but also the difficult to measure indicators. In order to do so, support will be needed from the top as some difficult or unknown to measure indicators are more long range in terms of their impact (Petit, Spring 2012).

CONCLUDING REMARKS

The goal of this research was to determine what Executive MBA Deans and Program Directors could learn from Deming's *The New Economics for Industry, Government and Education* (MIT, 1994). In order to accomplish this goal the history of the Executive MBA sector along with the current trends were discussed. In addition, select frameworks from Deming's text were introduced and a qualitative analysis ensued on its applicability for the betterment of the sector. The findings of this study indicate that Executive MBA Deans, Program Directors and Business Schools can certainly benefit from the Deming Thinking particularly in the areas such as The System of Profound Knowledge and the Deadly Diseases. In terms of the limitations the study systemic interviews from Deans and Program Directors of Executive MBA Programs should be conducted to reaffirm the findings. Future study in this area should include the Deming Frameworks inclusive of the potential ills of short term thinking on the sector.

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