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Research notes

Online MBA programs and the threat of disruptive innovation

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ABSTRACT

Online MBA programs are examined through the lens of disruptive innovation theory. Disruptive innovations appear at first to be inferior to the level acceptable to the consumers of the products offered by incumbents, targeting an audience ignored by the latter; as they improve, challengers can challenge market share. Using data from the 2011–2012 US News and World Report survey of online MBA programs, this paper evaluates the extent to which this model applies to online MBA programs offered by institutions accredited by the Association to Advance Collegiate Schools of Business (AACSB) (incumbents), and those offered by MBA programmes with other accreditation (challengers). Many significant differences are found, in areas such as acceptance rates, target audiences of potential students, pricing, faculty, class sizes, and support services. These differences indeed cast the incumbents and challengers in the roles outlined by the disruptive innovations theory, indicating that incumbents may be at risk of disruption.

1. Introduction

As more and more industries face disruption from the relentless spread of digitization, an emerging threat to MBA programmes may be the move to online learning. Michael Bassis, a prominent leader in this movement, noted in 2009, "few colleges and universities will have the luxury of using a slow, evolutionary strategy that entails [putting] their courses [online] one by one" (para. 19). He continued: "There are enough for-profit and not-for profit institutions that are quickly putting the pieces together to be in a position to mass-market multiple, high-quality, low-cost degree programs that students of all types will find enormously attractive" (Bassis, 2009; para. 19). The ubiquitous nature of the Internet means that competition is not constrained by national boundaries.

Should leading business schools be worried? As early as 2011, "over six million students [in higher education were] enrolled in [exclusively] online higher education classes" (Stage, 2011). Market share as a percentage of number of graduate-level business students at for-profit institutions alone increased from 7.8% in 2000–2001 (enrollment: 254,687) to 20.6% in 2008–2009 (enrollment: 440,482) (Nelson, 2011). As recently as 2014, "[f]or profits [made] up the fastest growing segment of higher education … " (Porter, 2014).

Many leading business schools have used top-level accreditation to shield themselves from institutions with poorer reputations for effectiveness. The Association to Advance Collegiate Schools of Business (AACSB) was originally oriented towards PhD-granting, research-heavy institutions, but as Bieker (2014) explains, AACSB accreditation has become broader to focus on how well business schools are achieving their self-formulated missions. Nelson (2011) describes how AACSB-accredited institutions may view other institutions without this credential: "Many for-profit institutions are seen, rightly

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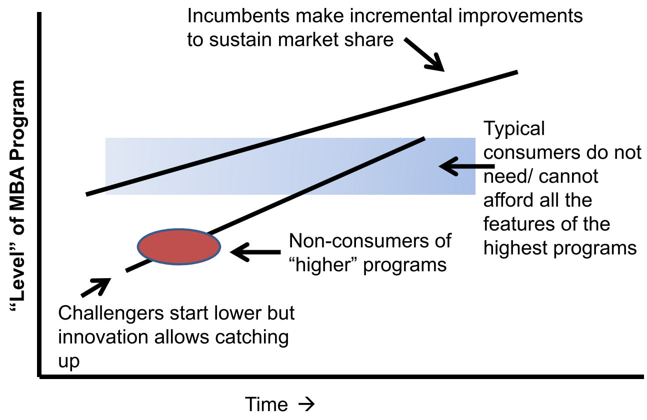

Fig. 1. Disruptive technology model.

or not, as having less stringent requirements with regard to admissions, faculty qualifications, curricula, etc., than other (particularly AACSB-accredited) schools". This negative outlook seemed particularly justified when online courses were "simply computer-based versions of traditional lectures and exams, [and] the quality of online learning fell far below that of face-to-face instruction" (Christensen & Eyring, 2011, p. xxiv). Furthermore, faculty who had not yet taught online courses were more skeptical about whether online courses could deliver better results (Meyer, 2010; Starr-Glass, 2011).

As of this writing, AACSB has accredited 761 institutions globally, with 540 in Northern America (71%); 110 in Asia and Oceania (14.4%); and 91 in Europe (12%), including 27 in the UK (3.6%) (AACSB, 2016). Bieker (2014) notes, "Accreditation by AACSB International (AACSB) is regarded as the gold standard of achievement in business education around the world" (p. 284). Two European based accreditation bodies—The Association of MBAs (AMBA, based in London), and the European Quality Improvement System (The EFMD Global Network's EQUIS, based in Brussels)—may serve a similar purpose.[1]

This study examines whether there is a gap between the AACSB-accredited, "incumbent" fully online MBA programs (AAI), and fully online MBA programs offered by non-AACSB-accredited institutions (NAAI), be they public, private, or for-profit ("challengers"). It does so through the lens of Christensen's model of disruptive innovations (1997). The essence of the model is that incumbents ignore "non-consumers" of their product who become early adopters of innovations from challengers. As the challengers' products improve, more and more consumers shift, ultimately leaving the incumbents with too small a market share to be viable. Christensen's model (Section 2) presents the criteria by which to judge whether or not the AAI and NAAI fully online MBA programs look alike (the null hypothesis). If the null hypothesis cannot be rejected, then is cannot be said that some of these programs constitute a disruptive innovation. If enough differences are found as the model predicts, then incumbents have good reason to be concerned.

Section 3 explains data used in this study, and Section 4 systematically investigates differences between programs offered by the two types of institutions. Section 5 discusses these results, and Section 6 considers what might constitute the most disruptive aspects of these innovations in the future. This paper also contributes to the understanding of the theory of disruptive innovations, following the suggestion of Christensen (2006) to investigate the theory empirically with examples from industries that range far afield from its original formulation in manufacturing.[2]

2. Signposts of disruptive and sustaining innovations

As Christensen and his colleagues have documented, it is all too easy for incumbents to be initially complacent about new technologies. In the beginning of online education, for example, "[o]nly consumers who couldn't attend a class offered at just one place and time, such as working adults, found this new form of education attractive or at least tolerable" (Christensen & Eyring, 2011, p. xxiv). Disruptive innovations such as "fully online" are often worse (at first) than the incumbent technology they are ostensibly competing against; target low-end "non-consumption" consumers who have never been targeted by the incumbent; and exist in a business model/ecosystem that is outside of, or radically different from, the business model/ecosystem of the incumbents. Non-consumption segments may include those who work full time with families, those with

[1] Wikipedia (2016) provides a valuable comparison of these three types of accreditation. EQUIS has been used to accredit 161 business schools worldwide, including 16% in the UK, an additional 37% in Europe, and just 8% in the US (EFMD Global Network, 2016b).

[2] Danneels (2004) offers a critique of major portions of the theory, and debate about it has been vigorous. Many criticisms are answered by Christensen (2006). It is beyond the scope of this paper to consider all the research on this model. Tucker and Miron (2012) conclude that online innovations in higher education so far are just incremental and sustaining, but consider fewer aspects of the model and use less comprehensive data than are considered here.