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Austerity measures force a change in tactics

As state and regional funding reforms continue to bite, French business schools are having to review their strategies, writes Ian Wylie

After *les grandes vacances*, many business school directors and deans in France are returning to their desks this week with mergers to complete or contemplate.

While some schools are merging for strategic reasons, others may soon be forced by financial pressures to consider marriages of convenience. Many business schools in France receive millions of euros in subsidies from their local, publicly funded chambers of commerce. But as part of its austerity measures, the French government is putting the squeeze on chambers of commerce, which in turn could tighten the screw on the business schools they support.

"I've been in this sector for 30 years, working in three different schools with three different chambers of commerce, so I've heard this alarmist talk for 30 years," says Philip McLaughlin, who was previously director of BEM Management School Bordeaux. "But austerity has made that talk louder."

In its battle to reduce a public sector deficit, the Socialist government of President François Hollande has business in it sights. Prime Minister Jean-Marc Ayrault has asked the country's 153 chambers of commerce and industry to accept a reduction of 20 per cent in their budgets for 2014 – a total loss of about €270m. This follows cuts of 15 per cent in 2013.

The decision, say the CCIs, was taken without consultation and some are considering some kind of strike action. Others, such as the CCI in Rennes, which employs 500 people including staff at the city's ESC school, say they may have to consider rationalisation.

"There will be attempts to save money at a regional level," says Prof McLaughlin. "The government wants to take power from the local chambers of commerce in, for example, Bayonne, Libourne, Bordeaux and Pau and give it to the region, Aquitaine, to decide how the money is allocated. So there's going to be all kinds of political negotiations and compromises that will probably neutralise some services."

BEM has merged with Euromed Management in Marseille to form Kedge Business School, with a budget of €83m and teaching faculty of 159. Prof McLaughlin, associate dean, says chamber of commerce funding accounted for only €1m of his €35m budget at BEM. But he thinks another measure, government plans to reform the country's *taxe d'apprentissage* at the end of the year, may be more damaging to business schools.

This apprenticeship tax, in place for almost 90 years, is a vocational tax paid by companies and calculated according to the salaries paid to all staff during the past year – usually 0.5 per cent of total salaries and wages. Just over half of the revenues raised by this tax is used to finance apprentice schemes and support a National Fund for the Development and Modernisation of Learning. The remaining 48 per cent is donated to higher-education institutions as selected by each company.

The threat to the sector posed by the removal of this income is serious because it represents up to 30 per cent of some schools' budgets. The worry is that the government will seek to funnel more of the money into craft and trade apprenticeships, prompting the Conférence des Grandes Ecoles, which represents about 40 business schools, to warn that this could "asphyxiate" higher-education institutions.

'Having more than 40 business schools in France may not be sustainable'

The funding changes have been described as "modernisation" but some see evidence of the government's intention to consolidate higher education in France. Its *Initiatives d'Excellence* (Idex) scheme, for example, rewards partnerships by allocating generous funds to clusters of universities, grandes écoles and other schools that work together.

There is little sympathy for business schools within the public universities where young lecturers earn €30,000, compared with the €150,000 paid by some Parisian grandes écoles.

"Because public universities have been heavily underfunded, it has created a knee-jerk reaction within the universities, which argue that if there have to be cuts, they should be aimed at the business schools," says Prof McLaughlin. Business schools must now consider if they can offset funding cuts with higher tuition fees.

Some French business schools such as HEC Paris and ESCP Europe fare well in international rankings. However, medium-sized schools may have to decide whether their future lies on a local or global stage.

Business schools in France are no different to others in that regard, argues Frank Bostyn, who is dean of the business school created through the merger of the two grandes écoles in Rouen and Reims.

"I don't think the economic pressures are unique for France – there are lossmaking business schools everywhere . . . It's just that the way the financial pressures are transmitted to schools in France is different because of the institutional framework here.

He predicts the emergence of a group of seven or eight leading French schools with international teaching staff and students, as well as activities outside France. At the other end of the market will be smaller schools serving the needs of local, domestic businesses.

It is a forecast shared by Alice Guilhon, dean of Skema, formed from the merger of Ceram Business School and Groupe ESC Lille in 2009.

"The best flagship schools – even those in Paris, which are more dependent on their chamber of commerce – will not have a problem. And to be able to compete internationally requires a change to structures of governance. It's not within the competency of a chamber of commerce to support international development," she says. "The problem will be with the smaller chambers of commerce and schools that are rooted in their territories. Having more than 40 business schools in France may not be sustainable – we could see that number reduce to around 20."

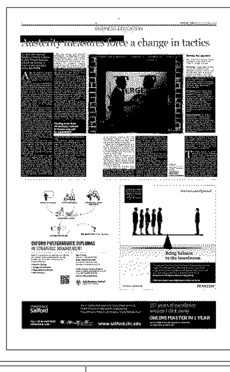
The latest merger to attract attention is France Business School (FBS), a partnership between schools in Amiens, Brest, Clermont-Ferrand, Poitiers and Tours. Under the leadership of Patrick Molle, FBS has already courted controversy by breaking with grande école tradition and bypassing the usual *classes préparatoires* selection process with more open "talent days".

Deans and directors are likely to see more traditions broken before the *grandes vacances* roll around again.

Recipe for success

With more French business schools expected to merge, what is the recipe for a happy marriage?

● **Rankings.** League-table proximity may be more important than geographic proximity. "Schools must be sufficiently similar in terms of rankings and quality," says Frank Bostyn, who is dean of the merged



Reims and Rouen business schools. In the 2012 FT Masters in Management rankings, for example, Rouen Business School was ranked 19th while Reims Management School was 25th.

● **Language.** Not a debate about teaching in French or English but whether the schools articulate a shared vision. "What's important is bringing faculty together, looking at strengths and weaknesses," says Philip McLaughlin of Kedge Business School. "Do you have complementary offers and clear strengths that aren't going to be threatened or weakened by the other?"

● **Communication.** Or, as Prof Bostyn puts it: "Communication, communication, communication. Convincing staff and involving them at every stage is very important. You need a strategy that will convince everyone internally of the merits of a merger and, early on, move from a narrative of merging to a narrative of going forward."