

Does Emphasis of Return on Investment Affect the Educational Mission for MBA Programs?

Gregg Schoenfeld

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Abstract

Is the recent focus on personal return on investment distracting higher education programs from their mission to generate new ideas and improve the economy at large? Data from large-scale surveys of key stakeholders in the field of graduate management education suggest that while a monetary return on investment in education is of concern to many individuals; it has not become the sole motivation. Students continue to seek a graduate management education to improve their skills, and MBA programs continue to produce these improvements. Research further suggests that these benefits for the individual translate into benefits to society as well.

Robert Reich (2004), a professor of public policy and former secretary of labor under President Clinton, stated that recent interest in attaining a personal return on investment (ROI) from an education has contributed to an altering of the fundamental mission of higher education. Reich claims that during the post-World War II era, “there [was] unmistakably a public mission to higher education” (2004), where higher education was construed as a way to cultivate the talents of individuals to facilitate improvements in the economy and generate new ideas. Today, Reich observes that the mission of higher education is often expressed as a personal investment that produces private returns for the individual with little emphasis on the good of society, by which higher education “is coming to resemble any other kind of personal service industry” (Reich, 2004).

At its core, an educational system provides a forum for the transmission, synthesis, creation, and critical inquiry of knowledge (Cremmell, 2005). These fundamental functions of an educational system are what produce value, not only for individuals in the educational setting, but also to society as a whole (Hall, 2000). However, rather than using their scarce resources toward the traditional mission of education—improving independent thought, the analysis of problems, and the absorption of new ideas—schools appear to be using their resources to merely attract students in an effort to gain prestige and

market power and to improve their rankings in various publications (Zimmerman, 2001; Newman, Couturier, & Scurry, 2004; Wellen, 2005). Reich (2004) claims these changes, along with a shift towards emphasis on courses that yield immediate monetary return and less general learning, have created a system under which the advancement of society is no longer of concern compared to the advancement of select individuals.

Donhardt (2004) points out that “it is reasonable to expect enrollees in graduate programs to have expectations of future financial attainments resulting from an investment of their time and energy” (p. 16). Wellen (2005) has observed, however, that “rather than setting out to learn or change oneself, the student-consumer merely sees higher education as a utilitarian means to gain grades and occupational credentials” (p. 25). Does this notion that higher education as a private good, where “the student would weigh the benefits of the educational service he or she is purchasing against its cost” (p. 25), serve to distract the educational system from its primary mission?

This paper examines the ROI in higher education, specifically with regard to the Master of Business Administration degree. The results of large-scale surveys are used to probe the question as to whether graduate business programs are in fact failing to educate students

and produce talented graduates who will imbue value to organizations and society beyond their personal monetary gains.

Background

An overview of the basic components of ROI, the investment and the return, provides a foundation for exploring the value concept among various stakeholders in graduate management education. Contrary to what some might assume, the investment and return of education, as determined by prospective students, current students, and alumni, are not exclusively tied to monetary gains.

The Investment

From the student's perspective, a large portion of the monetary investment in an MBA degree is tuition cost, which ranges from \$15,000 to more than \$80,000 a year. In addition, research has shown that many MBA students rely on loans to pay for at least part of their tuition fees, which means interest on any loans used to finance the degree must also be accounted for in the investment. A study of prospective MBA students found that about a third (32%) of those who applied to a graduate business school planned to use loans as their main source of financing, and another 59% expected to finance at least a portion of their degree with loans (Edgington, 2004). Understanding the investment based on these figures for tuition and interest are rather straightforward.

Opportunity costs can also figure largely in the cost of obtaining a degree. For instance, if a student plans to attend a graduate business program full-time, whether for one year or two, the student may be out of the workforce and forgoing earnings and seniority advancement while attending school. Students who attend full-time two-year MBA programs and choose not to work during that time could stand to lose approximately \$107,922 in wages during that time (Schoenfeld, 2005b). Students who attend part-time MBA programs, however, typically continue to work while in school. In fact, an intention to continue working is the most powerful predictor of applying to a part-time MBA program (Schoenfeld, 2005a). Students who attend executive MBA programs also traditionally continue to work throughout the program. Therefore, students in full-time programs would likely include opportunity costs in the investment, whereas

students in part-time or executive programs generally would not.

Incidental costs, such as testing fees, application fees, books, and supplies, also add to the investment. Plus, the time and energy students must expend during their education may limit their availability for other activities and pursuits. The loss of free time, although not allocated a monetary value in ROI, is generally considered a part of the investment. The sum of all of these monetary and opportunity costs of attending the MBA program represents the investment side of ROI to be weighed against the return from the student perspective.

The Return

The most obvious quantifiable return of earning a graduate business education is the potential for salary growth. "In general, university graduates tend to have higher incomes, more stable job prospects, and faster career progression than those without tertiary qualifications" (Access Economics PTY Limited, 2005, p. I), and graduates of MBA programs may enjoy higher economic rewards than most. According to the study by Access Economics PTY Limited (2005) on the economic value of a business education, a business post-graduate reaps a net economic benefit of \$659,726 compared to \$254,085 for other post-graduate degrees. However, salaries do vary, and Baruch and Lemming (2001) argue that "there is no evidence to support the myths of huge salary increases for all after an MBA" (p.600).

Beyond salary, graduates can also expect an improvement in the quality of their employment (Hall, 2000). Although such improvement is harder to quantify, satisfaction with one's employment may factor into the return. According to a recent survey of MBA alumni, 35% stated that they were very satisfied with their job (Schoenfeld, 2005c). That percentage is impressive when compared to a survey of 5,000 U.S. households conducted by The Conference Board, Inc. (2005) that shows "only 14% [of all Americans] say they are 'very satisfied'" with their job. The higher percentage among MBA alumni speaks of added value and greater rewards for many MBA graduates, and West and Patterson (1998) have found that, "satisfaction of the workforce is an important predictor of future productivity" (p. 29). Consequently, employers of these MBA alumni may enjoy reciprocal

return for providing quality employment that is satisfying through increased productivity.

Higher job satisfaction and subsequent increases in productivity may also benefit society in general. Graduates of business schools use their management education to assist organizations in meeting their goals, and “organizations that are successful in meeting their goals and fulfilling their purposes become enormous assets to societies, fostering greater productivity and a more desirable quality of life” (AACSB International, 2005, p. 5). As such, the relationships between successful employers and graduates of quality business programs benefit the individuals, the employers, and society at large. To further this claim, Hall (2005) has shown that, “15 to 20% of the annual average growth in output for the United States was explained by increases in education levels” (p. 8), and that, “By improving the productivity of American workers, education increases the wealth of the United States” (p. 9).

Methodology

This paper draws data from large-scale survey research projects conducted by the Graduate Management Admission Council® (GMAC®), the global association of leading graduate business schools and provider of the Graduate Management Admission Test® (GMAT®). Results from four surveys are used to examine the outcomes of attaining an MBA degree to evaluate the statement that the “commercialization” of graduate management education and the associated interest in personal ROI is anathema to the core mission of an education. Each survey is described below.

- The mba.com Registrant Survey is a survey of registrants on the mba.com Web site. The survey was first conducted in 2003. One year later, a follow-up survey was initiated. The primary purpose of the survey is to follow the progress of prospective students in their pursuit of the MBA degree and to understand their decision-making process when selecting graduate management schools at which to apply and attend. Data from the 2005 survey, to which 5,404 individuals responded, provide prospective students’ opinions on the outcomes they will use when assessing their investment in the MBA degree.

- The Global MBA® Graduate Survey is an annual survey of graduating students first conducted in 2000. Each year, graduate business schools are invited to participate by either providing the e-mail addresses of their graduating MBA students or by forwarding the survey invitation directly to their students. Results from the 2005 survey, to which 5,829 graduating students responded, are used to explore various outcomes of attending a graduate business program. The survey also provides student perspectives on the outcomes they will use in assessing their investment in the MBA degree.
- The MBA Alumni Perspective Survey is a biannual follow-up study of past participants of the Global MBA® Graduate Survey. Data from the April 2005 survey, to which 2,209 alumni responded, provide the alumni perspective on the outcomes used in assessing whether the MBA was a good investment. Additionally, alumni are asked to indicate the percentage of their investment they have recouped at the time of the survey.
- The Corporate Recruiters Survey is an annual survey of MBA employers. Results from the 2005 survey, to which 1,270 recruiters responded, are used to gauge how well employees with MBAs have met the expectations of their employers. The survey also provides the employers’ perspectives as to the skills and abilities sought when hiring an MBA graduate.

A complete methodology for each of the surveys is located on the Graduate Management Admission Council® Web site (www.gmac.com/surveys) under the heading “Survey Research.”

Findings

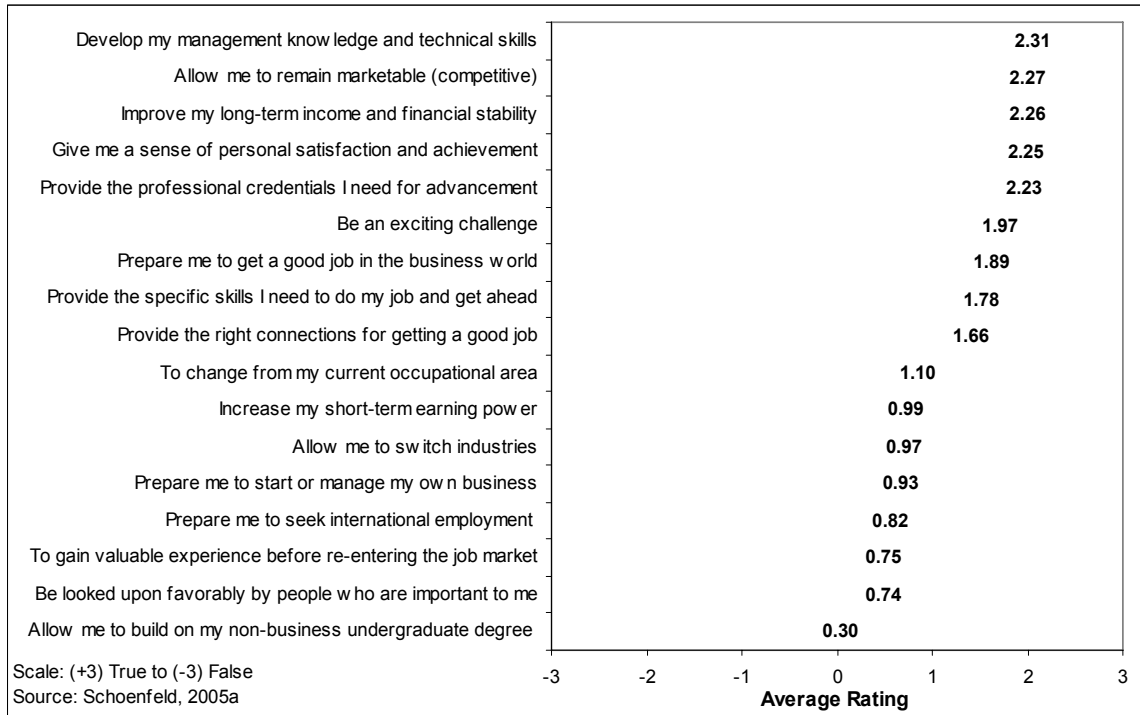
Why are individuals seeking an MBA degree?

Prospective MBA students are asked to indicate the truthfulness of a list of statements regarding their reasons for deciding to enter a graduate management program (Figure I). Among prospective students, the development of management knowledge and technical skills is reported as the most truthful statement. Interestingly, such development is quintessential to the core mission of higher education; students cultivate their talents through

knowledge and skills and build the foundation for facilitating improvements in organizations. Prospective students also rated four other reasons closely behind: [it would] allow me to remain marketable (competitive),

improve my long-term income and financial stability, give me a sense of personal satisfaction and achievement, and provide the professional credentials I need for advancement.

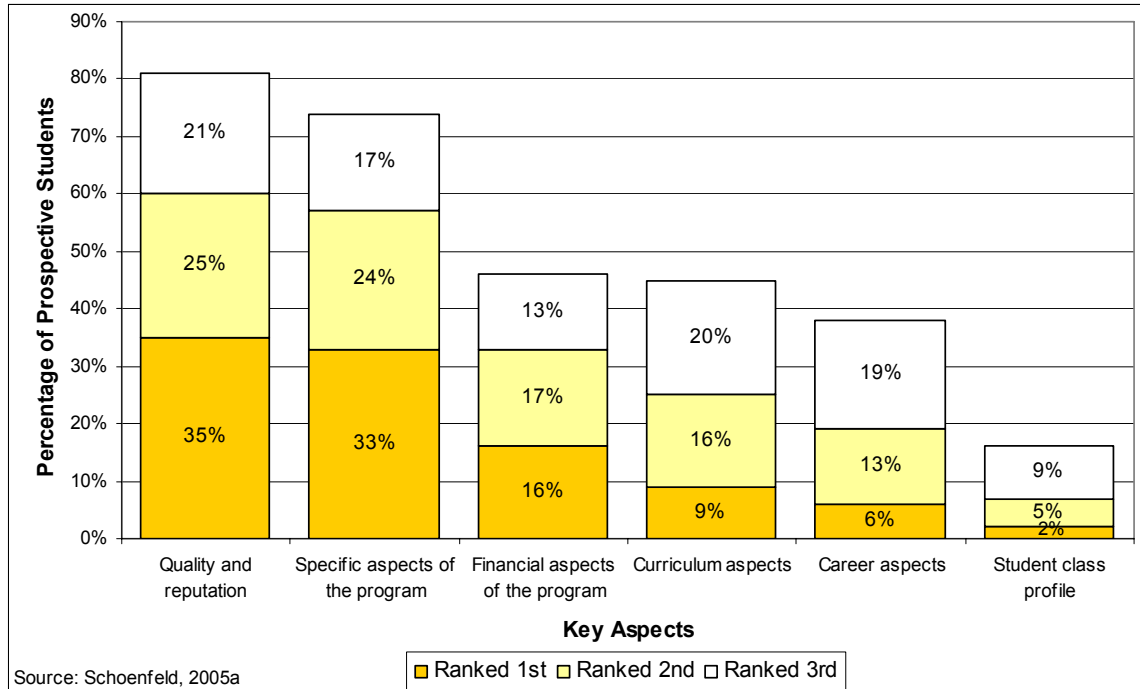
Figure I. Average Truthfulness of Reasons for Deciding to Enter a Graduate Management Program (Prospective MBA Students)



When prospective MBA students are asked to rank order six key aspects in choosing a graduate business school at which to enroll, the quality/reputation of the graduate business school is listed of primary concern for a majority of prospective students (Figure 2). Each respondent is asked to further elaborate on their top three aspects in choosing a graduate business school by specifying the importance of a list of key components. With regard to quality and reputation, the key components include (in

order) quality of the faculty, local respect/reputation of the school, rigor of the academic program, success of the alumni, quality of current students, published rankings, job placement reputation, AACSB-accreditation, and selectivity of admissions. The responses suggest that prospective students are far more interested in the quality of the education they will receive from the school than the published ranking or job placement reputation of that school.

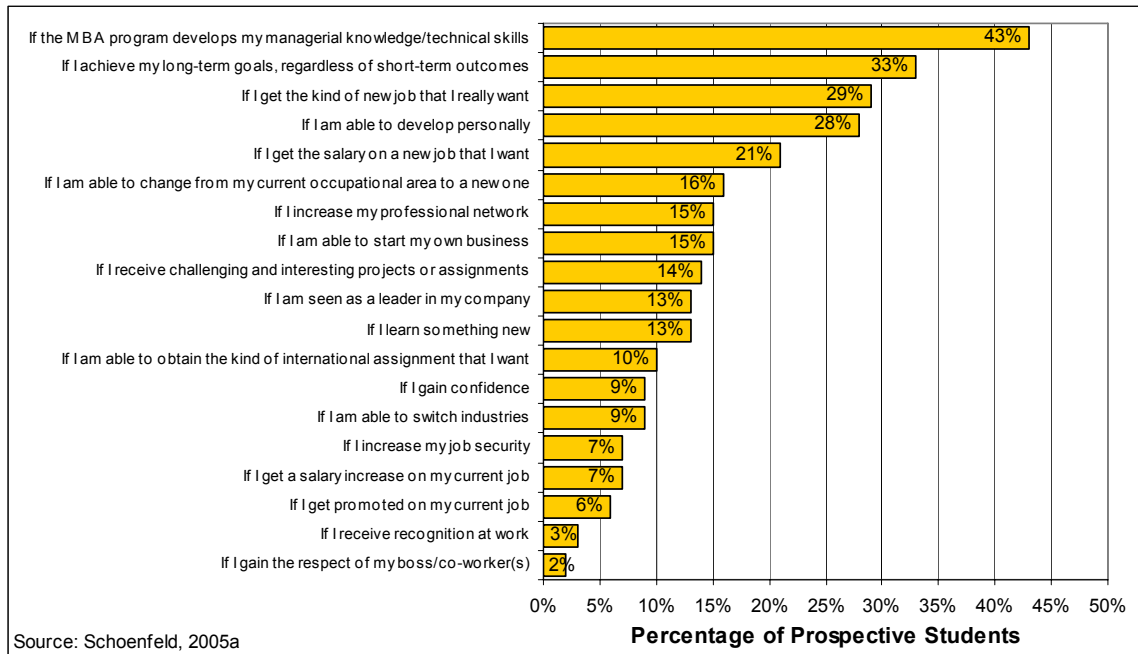
Figure 2. Rankings of Key Aspects in Choosing a Graduate Business School
(Prospective MBA Students)



Prospective students are also asked to indicate up to three outcomes they will use in assessing their investment in an MBA degree (Figure 3). More than two-fifths (43%) report that they will assess their degree by whether the MBA program develops their managerial knowledge and technical skills. Instead of monetary outcomes, this most common outcome relates to personal improvement in their abilities to think and perform. Additionally, a third

(33%) report that they will assess their investment by whether they achieve their long-term goals, regardless of short-term outcomes, and more than a quarter will assess their degree by whether they get the type of job that they want (29%) or develop personally (28%). Not surprisingly, the outcomes prospective students say they will use correspond directly to their reasons for entering a graduate management program.

Figure 3. Outcomes to Be Used in Assessing the Investment in an MBA Degree (Prospective MBA Students)

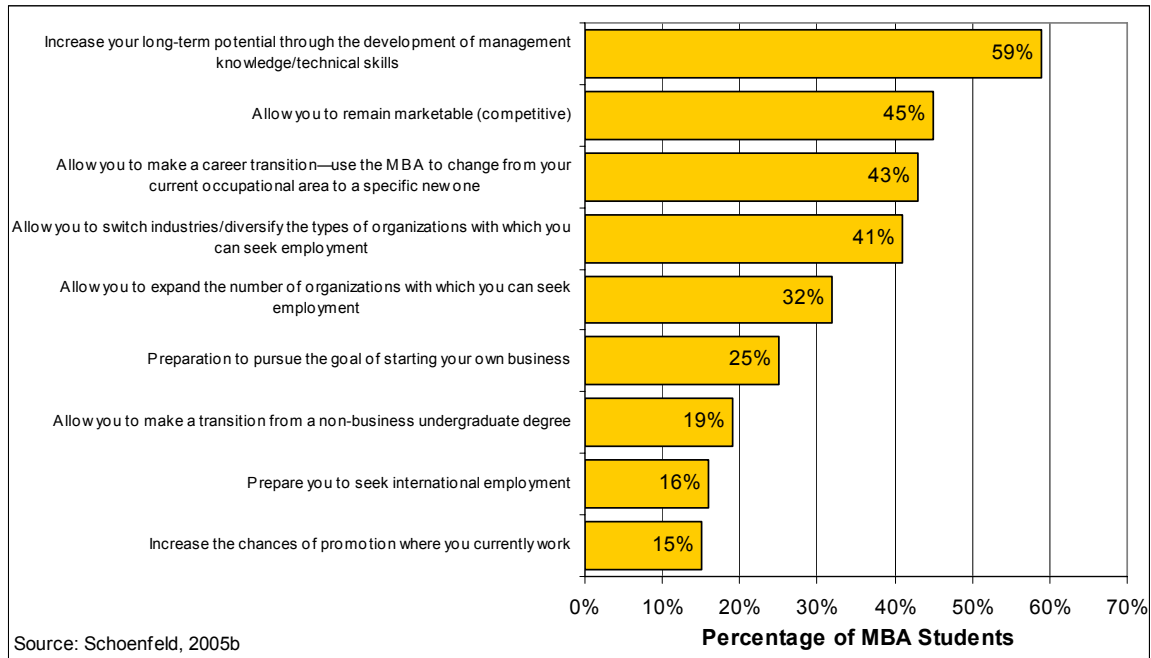


What do MBA students gain from attending a graduate management program?

Students in their final year of MBA studies are asked to indicate their satisfaction that the MBA degree will yield various outcomes. Of the outcomes given, students report being most satisfied that their MBA degree provides them with the opportunity to (in rank order): improve personally, increase their career options, obtain the credentials desired, remain marketable (competitive), and

develop their management knowledge and technical skills. When asked how the MBA has increased their career options, nearly three-fifths (59%) of the students report that the program increased their long-term potential through the development of management knowledge and technical skills (Figure 4). Therefore, it appears that although increasing career options are of primary concern among students, the development of their careers is widely based on the improvements in their skills and abilities.

Figure 4. Ways the MBA Increases Career Options (MBA Students)

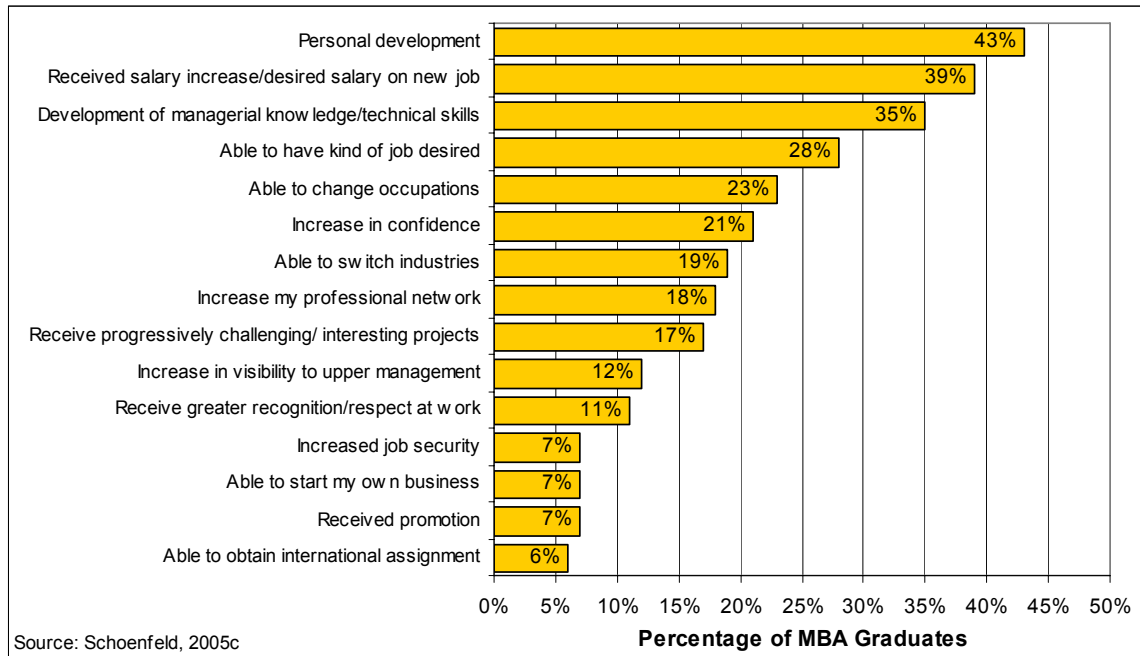


Nearly two-thirds (65%) of graduating MBAs feel that the value of the degree is outstanding or excellent, and quality of the program management is a key driver of this value rating. “The question as to how the MBA program is managed, including its mission, standards, and the continuous improvement of the program rank high on the minds of the graduating students when evaluating the overall value of the degree” (Schoenfeld, 2005b, p. 5). Of course, the expectation of increased earnings also figures prominently among the drivers of value, and findings suggest graduates do see the returns in their post-MBA salaries. “MBA graduates typically earn 53% more than

they earned before they entered the MBA degree program” (Schoenfeld, 2005b, p. 5).

MBA graduates are also asked to indicate the outcomes they will use when assessing whether the MBA degree was a good investment. The top three outcomes identified are personal development, salary increase/desired salary on new job, and development of managerial knowledge and technical skills (Figure 5). These outcomes used by alumni to assess their investment in the MBA, similar to those of prospective students, again relate to personal development and career outcomes.

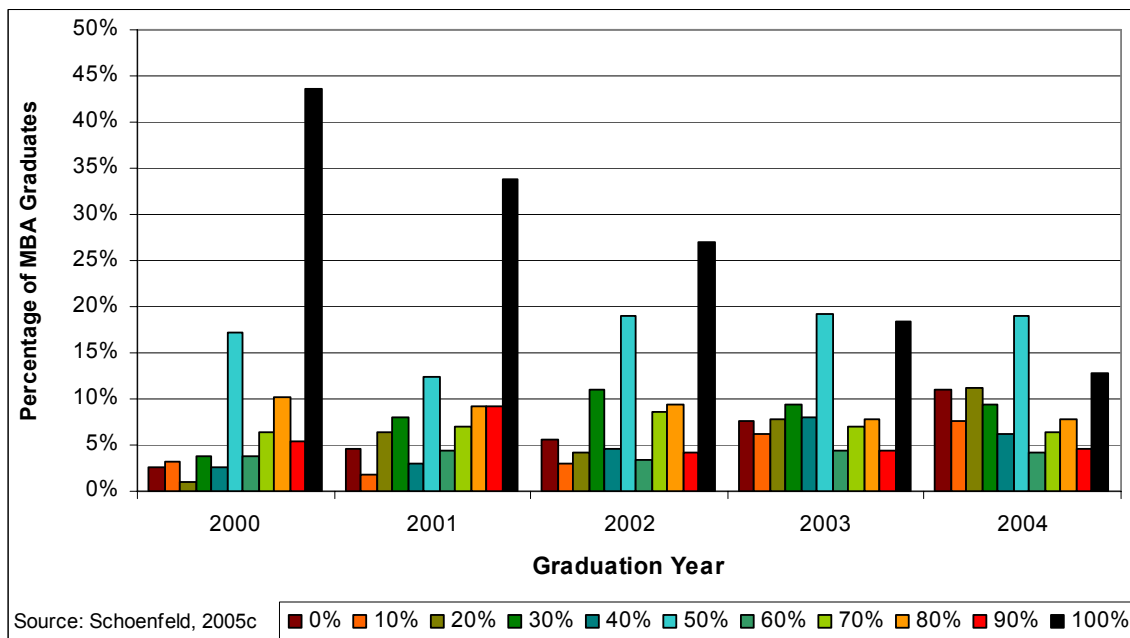
Figure 5. Outcomes Used in Assessing the Investment in an MBA Degree (MBA Graduates)



MBA alumni are asked to report the percentage of their monetary investment recouped at the time of the survey. Davies and Cline (2005) calculated the breakeven point, or “the number of years it takes for the income from an investment to pay for the investment” (p. 44), and show

“that the breakeven point is getting shorter, not longer, despite rising tuition costs” (p. 44). Data from the survey, however, still show that the longer an individual has been out of school, the greater the percentage of their investment they have recouped (Figure 6).

Figure 6. Percentage of Investment Recouped as of April 2005 (MBA Graduates)



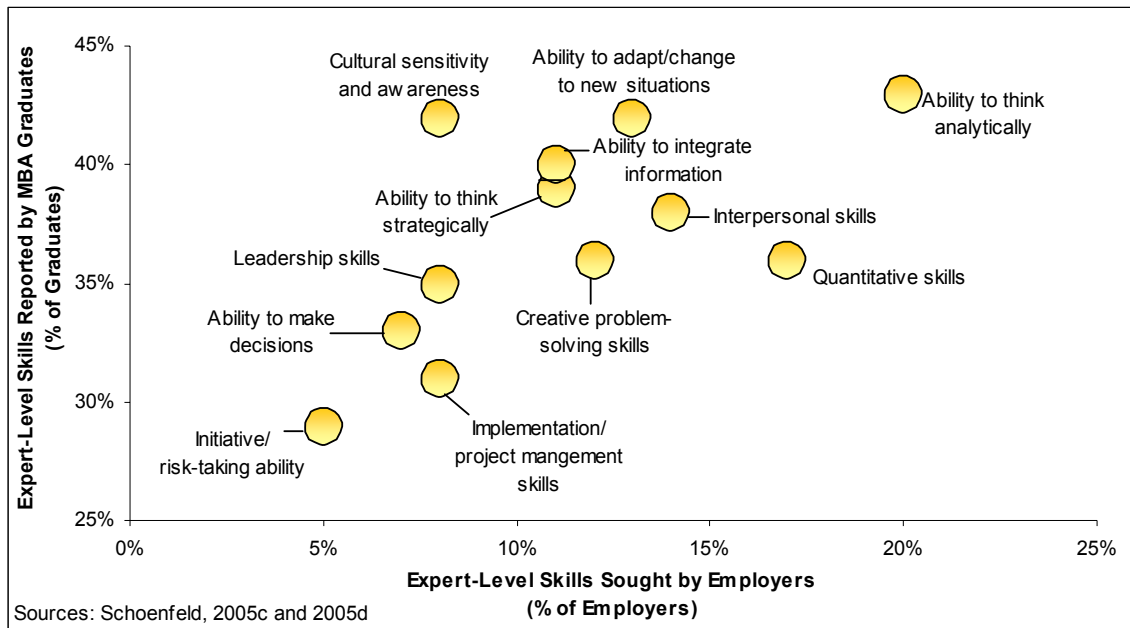
Are MBA graduates meeting employer expectations?

Employers are asked to indicate whether their MBA hires in 2005 exceeded, met, or did not meet their expectations. About a fifth (21%) of recruiters reports that the MBAs hired by their organization exceeded their expectations, and 76% report that the MBAs met their expectations (Schoenfeld, 2006). Together these responses suggest that most MBA graduates are living up to employer expectations.

Employers are also asked to indicate the level of proficiency sought for various skills and abilities when hiring MBA graduates. MBA students similarly report

their level of proficiency for various skills and abilities at the time of graduation. Figure 7 presents a comparison of the skills in which MBA graduates report having achieved an expert level of proficiency and the skills in which employers expect MBA graduates to have achieved an expert level of proficiency. When compared, there is a relatively good concordance between the skills employers seek and the skills mastered in a graduate management program. Furthermore, in contrast to criticism from Reich (2004) regarding the shift away from general learning that does not easily translate into economic value, both graduates and employers report that graduate business schools are improving independent thought, the analysis of problems, and the absorption of new ideas.

Figure 7. Comparison of Expert-Level Skills Acquired by MBA Graduates and Sought by Employers



Conclusions

According to AACSB International, the association to advance collegiate schools of business, a graduate management education provides graduates with a portfolio of skills, professional competence, and adaptability—a combination, in essence, of pre-professional skills and general knowledge. Newman, Couturier, and Scurry (2004, B6) argue that “colleges have been focusing their energies on a form of competition based not on improving graduates’ skills and knowledge but on institutional prestige and revenues.” Yet, despite this focus, findings

from employer and alumni data used in this investigation seem to agree with Baruch and Lemming (2001) that MBA programs are achieving their aim “to produce better managers and to provide graduates with stronger managerial competencies” (p. 600).

Furthermore, contrary to Wellen’s (2005) critique of students in higher education, MBAs are considering more than the utilitarian aspects of the degree. Prospective students are deciding to enter a graduate management program in order to develop their managerial knowledge and technical skills, to remain marketable (competitive),

and to improve their long-term income and financial stability. They choose their schools primarily on the basis of the quality of the education they expect to receive from the graduate management program. And prospective students plan to assess their investment in the degree through an assessment of their development of managerial knowledge and technical skills. Prospective students are further gauging their decision to attend and enroll in a graduate business school by determining whether the school will provide them with an improvement of their thought processes, analysis of problems, and exposure to new ideas.

The data show that MBA graduates are most satisfied that the graduate management education provided personal improvement, career-related successes, and the development of their management knowledge and technical skills. Graduating students who indicate the degree will increase their career options also attribute the increase to the development of management knowledge and technical skills. All evidence, then, suggests that though students do consider the monetary return on their investment, the development of skills and abilities continues to be a principle motivation across the board, from prospective students to alumni.

In terms of value, the majority of graduating students consider their education to be outstanding or excellent. Additionally, MBA graduates are steadily recouping their investment, and they are assessing their investment in a graduate management education by whether they developed personally, received an increase in salary, and developed their management knowledge and technical skills. The development of management knowledge and technical skills is repeatedly of high importance to prospective students, current students, and alumni.

Furthermore, the skills employers would like from MBA graduates are the skills that MBA students are developing

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while in school. According to Espey and Batchelor, as reported by Baruch and Leeming, "MBA studies lead to better decision-makers, who get to know the company and improve their effectiveness in both the short and long term (Baruch and Leeming, 2001, p. 590)."

For students, the MBA may not always be the "golden parachute" it is sometimes thought to be (Davis & Cline, 2005), but the MBA may be a step toward achieving their career goals. Afterwards, once an MBA graduate obtains a job, "it is entirely up to the individual to perform to expectations" (Baruch & Peiperl, 2000, p. 83), but the odds may be in their favor. Baruch and Peiperl (2000) report that managers with MBAs have higher levels of self-efficacy, self-esteem, and self-confidence, which are a proxy measure for performance, when compared with managers without MBAs. Employers uphold these claims by indicating that the vast majority of the MBAs they hired have met or exceeded expectations.

The answer to the question posed in the title of this paper is that although higher education may be adapting to the demands of the marketplace through increased efforts at attaining higher rankings and improved prestige, the fundamental mission of education, at least among graduate business schools, does not appear to be struggling to achieve education's core goals. Graduate business schools instead appear to be cultivating individual talents, and those talents are being used to bolster organizations and society at large.

Contact Information

For questions or comments regarding study findings, methodology or data, please contact the GMAC[®] Research and Development department at research@gmac.com.

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