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**COVER
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What's an MBA Really Worth?

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It will cost more than \$100,000 to earn a degree at an elite business school. Just one problem: There's little real evidence that it will enhance your career.

After college, Tad Glauthier didn't have much of a career plan. He knocked around for a while as a ski instructor, then as a TV sitcom stand-in. But when he decided at the age of 28 that it was time to get serious, he applied to one of the most revered career-building institutions in capitalism: [Stanford's Graduate School of Business](#). "I thought B-school would catch me up," he says.

Ask him about his educational experience, however, and he fails to mention discounted [cash-flow](#) analysis, the chi-square test, or any other morsels of wisdom from the standard [MBA curriculum](#). Instead he cites his role as executive producer of the 2002 GSB student musical, *Spectacular, Schmectacular*, and "All About Beer," a one-week elective about organizational dynamics in the brewing industry. As for his future? Glauthier hopes to start a business he describes as "a cross between Moulin Rouge, Angkor Wat, and Burning Man -- in a supper club."

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Two years at Stanford and \$60,000 in tuition alone to open a restaurant? Ray Kroc, who founded McDonald's without even a high school diploma, would be spinning in his McGrave. There's nothing wrong, exactly, with bright, ambitious young people spending a small fortune on an experience that, in some ways, compares favorably with summer camp. But for many of them, isn't it just a spectacular, schmectacular waste?

It has long been common wisdom that gaining an MBA from any but a [top-tier school](#) was a losing proposition. Go to [Harvard](#), it was said, and in time you'll earn back your tuition and opportunity cost in higher salary. Go to a school ranked below, say, the [University of Rochester](#), and you probably won't recover your investment.

In this era of drum-tight hiring budgets, however, faith is flagging in even the elite institutions. Recent history -- think [Global Crossing](#), Kozmo, [Pets.com](#) -- suggests that pouring 100,000 MBAs into the workforce annually has done little to raise the general level of business wisdom. "At the height of the bubble, our typical client wanted its CEO to be a bright, young up-and-comer with an MBA from a good school," says Scott Gordon, director of Spencer Stuart's tech-industry recruiting practice. "Today, real-world experience is far more important. An MBA alone just doesn't open the doors it once did." You don't have to tell that to John Damon (MBA, University of San Francisco, 2000). He's been living off unemployment and savings since he was laid off last August. "It's a real eye-opener for those of us who went to school and got our MBAs," Damon says, "because we never thought we'd be in this situation. When things got bad, the degree didn't seem to matter."

The most stinging criticisms, however, are emerging from within the business school establishment. In a draft report published internally this spring, the schools' own accreditation body, the St. Louis-based Association to Advance Collegiate Schools of Business, roundly criticized its members. Business schools, it said, are hopelessly behind the curve on [information technology](#), have an unhealthy obsession with their standing in [magazine rankings](#), and, worst of all, proffer an out-of-touch, ivory-tower curriculum. "Preparation for the rapid pace of business cannot be obtained from textbooks and cases," the report scolded.

Still more pointed is an upcoming study by Jeffrey Pfeffer, a management professor at Glauthier's own business alma mater, Stanford. In it Pfeffer challenges the bedrock assumption of business school: that those who make the effort to get an MBA degree have more successful careers than those who don't. Pfeffer combs through 40 years' worth of data for evidence that this is true -- and uncovers almost none. He quotes Ronald Burt, a [University of Chicago](#) business professor and the researcher behind two of the studies in Pfeffer's paper, who says, "I have never found benefits for the MBA degree. Usually it just makes you a couple years older than non-MBA peers."

Strangely, one group that seems to have no doubts about the MBA is the one most at risk -- the students. Applications are at record levels again this year, and judging from Business 2.0's survey of the class of 2002 (see "[Tomorrow Belongs to Them](#)"), those who have the degree view a rich, rewarding career as all but ensured. That assumption might be due for reexamination. To those who put themselves deep into hock believing that an MBA would improve their lives, Pfeffer poses an unsettling question: "Before you did this," he asks, "did you look at any data?"

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The Amos Tuck School of Administration and Finance offered the first graduate business degree in 1900, but it took half a century for the modern academic MBA to emerge. In 1950, U.S. graduate business schools awarded only 4,335 degrees -- less than 7 percent of all graduate degrees -- and most offered an education that was more vocational than professional. "What you had were some retired businessmen telling their war stories," says Milton Brown, who joined the Harvard Business School faculty in 1942. "There were no theories or scientific ways of doing things."

As corporations grew more complex, business leaders and academics recognized the need for well-trained managers. In a 1959 report financed by the Ford Foundation, economist R.A. Gordon of the [University of California at Berkeley](#) and James Howell, a professor at the Stanford GSB, criticized the lack of academic rigor in business schools. The authors issued specific guidelines for curriculum reform, emphasizing social sciences, statistics, and a "scientific attitude toward management problems." Persuasive as the pair may have been, however, what really caught university administrators' attention was the millions of dollars that the Ford Foundation had pledged in support of institutions that implemented their recommendations. ([Carnegie Mellon](#), [Columbia](#), [MIT](#), [Northwestern](#), and the University of Chicago were just some of the recipients.) Business schools that embraced Gordon and Howell suddenly had the money and the mandate to hire Ph.D.s and future Nobel Prize winners.

The drive for academic respectability, however, has nurtured a teaching culture in which few marketing professors have managed a brand, few management professors have led a team, and few finance professors have done a deal. "You had faculty from social science disciplines like [economics](#) and sociology replacing real-world practitioners in classrooms," says James Bailey, an associate professor at George Washington University's business school. "Aside from Harvard and [the University of Virginia's] [Darden](#), which stayed with the case method, business schools began telling students, 'Here's the concept, you figure out how to apply it.'" The result is a mismatch between what students are being taught and what they need to know to succeed in business.

That's the conclusion reached this spring by the Association to Advance Collegiate Schools of Business, whose accreditation has been the Good Housekeeping seal of management education since the association's creation in 1916. The AACSB based its findings on a survey of 1,500 graduates of 18 full-time MBA programs, who were asked which skills were most important in their careers, and to what extent their degrees enhanced those skills. The graduates rated one-on-one communication as most important, yet they considered only 6 percent of business schools better than "moderately effective" in helping students develop in that area. Alumni also rated listening skills and managing change as "extremely important" for career success, but gave only 12 and 6 percent of schools, respectively, high

marks at teaching them. No school rated above "moderately effective" in teaching students to apply business theory in practice. In fact, alumni seemed to be saying that theory wasn't all that useful anyway, ranking it second-to-last in importance.

The AACSB task force strongly suggested clearing the ivory-tower cobwebs out of B-schools and letting people with real-world experience design curricula and teach alongside academics. But Milton Blood, the AACSB's managing director of accreditation services, predicts resistance, especially at the most prestigious institutions. "They don't have the incentive to shift," he says.

Pfeffer's rebuke to business schools strikes even closer to home. In his paper -- coauthored by Ph.D. student Christina Fong and scheduled for publication in a fall edition of *Academy of Management Learning and Education* -- Pfeffer notes that the widespread assumption that an MBA education will enhance a person's career is almost wholly unsupported by data. Called "The End of Business Schools? Less Success Than Meets the Eye," the paper reflects Pfeffer's belief that business schools, like all successful, slow-moving institutions, are highly vulnerable to competition.

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Some competition already exists. Both McKinsey and Boston Consulting Group offer in-house training in basics for non-MBA consultants. BCG's Business Essentials Program, for example, is a mini-business-school course that turns MDs and Ph.D.s into functioning management consultants in just two weeks. "I wouldn't say that an incoming [non-MBA] becomes a complete replica of an MBA in two weeks," says Kermit King, head of BCG's North American recruiting. "But it eliminates any glaring disadvantage in terms of a toolkit."

Pfeffer admits that one reason there's scant evidence for the alleged superiority of MBAs is there's not much data -- period -- on the subject. Still, he's not impressed by what he's found. One major investment bank analyzed the 2000 salaries of its employees and failed to uncover a statistically significant correlation between having an MBA and higher pay. Ronald Burt, who performed the study for the bank, found similarly inconclusive data in follow-up studies of graduates of the University of Chicago's business school. Pfeffer also examined some 40 years' worth of studies that attempted to find a correlation between grade point average and future salary. If the subject matter taught in business school were directly tied to business success, he reasons, there should be a strong link. The studies didn't find one.

So, is an MBA worth the investment? In the wake of the AACSB report and Pfeffer's study -- and the on-the-ground experience of consulting firms and other employers -- it's hard to maintain that learning what's taught in B-school will make you a business leader. But the question is broader than that.

For one thing, there's more to a B-school education than the curriculum. Two years of shared projects and all-nighters links graduates in a social network that would take years to reproduce in the real world. Employers these days give more weight to your experience than to your degree, Spencer Stuart's Gordon says, but they're still more likely to favor people they know. Speaking of Harvard's famously close-knit MBA network, he says, "I'm continually impressed by how productive it is for graduates. It's a huge leg up." There's also the screening effect: Employers assume, with some justification, that someone who managed to get into an elite school (and pay the tuition, to boot) is ambitious, intelligent, and motivated.

But are a foot in recruiters' doors and a supercharged Rolodex really worth two years of your life and a total investment that could top \$100,000? It depends on how hard it would be for you to re-create them outside B-school -- and how much your career path depends on such advantages. Even Pfeffer concedes that they are worth something. "The connections, the networking, the 'being anointed' -- all that has value," he says. "What we are questioning is whether the *education* has value."

It's difficult to answer that question conclusively from Pfeffer's paper, in part because of certain statistical flaws in the studies he reviews (which, by the way, any decent MBA would catch). For example, comparing MBAs' salaries with those of non-MBAs ignores selection bias, which arises because people don't go to business school randomly. Many, in fact, do so because they believe they need an MBA to make more money. Some people -- including [Michael Dell \(DELL\)](#), [Larry Ellison \(ORCL\)](#), [Bill Gates \(MSFT\)](#), and [Steve Jobs \(AAPL\)](#) -- did just fine without MBAs (or even BAs). But that doesn't prove that

those who have them aren't better off than they would be otherwise.

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Still, Pfeffer and others raise important questions for anyone rushing to get an MBA. The fact is that intimate knowledge of the capital asset pricing model and other items in the MBA toolkit is no guarantee of career success. What matters much more is how artfully you apply what you learn. Business school professors can't teach you how to do that. They never could.

Presented with the news that his MBA does not ensure him a fabulous career, Glauthier brings up that beer class again. That's because one day, Pete Slosberg -- founder of Pete's Brewing -- showed up as a guest lecturer and floated an idea for a startup. Glauthier and some classmates showed interest, so Slosberg invited them to write a business plan. Two weeks after spring break, Slosberg had the company funded and Glauthier had an offer to work for it: competitive salary, options vesting over four years.

Glauthier politely declined so he could get moving on the supper club project. And for him, that's proof enough that his MBA experience has prepared him for a rewarding career. "Salary is important, but the real measure of success is your ability to go after your dreams," he says. "That sounds pretty Disney, but I suspect I just turned down a job that would have made me a lot more money." ♦

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