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Top 5 Reasons an MBA is a Bad Investment

By **Geoffrey James**

For years, an MBA degree has been seen as a first-class ticket to the management fast track. People spend \$100,000 (or more!) to earn the degree, confident that it will propel their career into overdrive.

Even so, the once-golden MBA is quickly losing its luster. Let's face it: the degree has been WAY over-hyped, MBA curricula are out of touch with real-world demands, and many programs have a culture that fosters some awful management habits.

With that in mind, here are the top five reasons your MBA may not be worth the money you'll pay for it.

REASON #1: THE ROI SUCKS

When it comes to goosing up your lifetime income, the MBA just ain't what it used to be.

Writing in a research piece for "The Academy of Management Learning and Education" several years ago, two business school professors, Jeffrey Pfeffer of Stanford and Christina Fong of the University of Washington, dropped this bomb on academia: "What data there are suggest that business schools are not very effective. Neither possessing an MBA degree nor grades earned in courses correlate with career success."

The report debunked many of the traditional claims of B-school recruiters. Pfeffer and Fong cited multiple studies that, for instance, compared the salaries earned by MBAs with their non-degreed peers. All research concluded that although MBA grads earned higher starting salaries than college grads, mid-career MBAs saw no salary boost after earning the degree. Some studies even found that those who pursued an MBA full time suffered from the disruption in their employment.

The paper kicked up a storm of protest that hasn't let up. Many in the business education community have cited other studies suggesting that an MBA is still a good investment. As Pfeffer explained to BNET, "The overall cost of education has risen so much over the past 15 years that it's become unclear whether it makes sense to overburden yourself with expenses and loans in order to secure the possibility of a greater salary in the future."



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Indeed, many students enter into an MBA program without any idea whether it will be a decent investment, according to Anna Ivey, a former dean of admissions at the University of Chicago Law School who now counsels graduate students on career choices.

"Undergraduates in various fields frequently ask me if earning an MBA will make them more hireable or land them a bigger salary when they get their first job," she said. "But based upon what I've seen, if [an MBA] is something that you're doing because you want to make more money, rather than because you're really interested in how businesses function, you'll probably be disappointed."

REASON #2: THEORY AIN'T PRACTICE

Most MBA programs rely heavily on case studies. Nobody seems to question whether studying stuff that happened a decade ago (or even decades ago) in one company has any real relevance to a different company in today's market.

In the book "Managers Not MBAs" Henry Mintzberg dropped this bomb: "The MBA trains the wrong people in the wrong ways with the wrong consequences," the professor of management studies at McGill University writes, echoing concerns about the impracticality of MBA training that had been bouncing around corporate America for years.

Since then, other critics have weighed in, arguing that there's too much emphasis on management theory and too little on developing practical skills. Others, too, suggest that when it comes to practical versus theoretical curricula, supply and demand is out of whack: Linda Richardson, the founder of Philadelphia-based Richardson, one of the largest sales training firms in the United States, also teaches how-to sales courses at the Wharton School of the University of Pennsylvania. She says MBA students are hungry for more training.

"We limit our program to 15 students," Richardson says, "and every quarter I get dozens of emails pleading to get in and students waiting at the door to see if anybody drops out. The reluctance among some business schools to address real-world business needs is really doing a disservice to their student body."

Business schools are beginning to respond to these concerns. Yale and Stanford implemented sweeping changes to their MBA curricula, allowing students to tailor their coursework based on previous work experience and career goals. However, there's little question that when it comes to practical knowledge, an MBA isn't all that applicable.



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REASON #3: IT'S REALLY AN ACCOUNTING DEGREE

Let's talk honestly here. The MBA isn't really about management at all. Insofar as business education teaches something useful, it's all about the dollars and cents of how a company works.

Both the Pfeffer/Fong paper and Mintzberg's book were highly critical of how universities had, over the past two decades, repositioned the MBA concept. Originally designed to teach corporate finance and the mechanics of manufacturing and supply chains, MBA programs now promise to teach students to be competent managers.

The premise is slightly ridiculous, says Pfeffer. "If you go into law or medicine or architecture, you're expected to go into a residency or apprenticeship before you're allowed to practice on your own," he explains, "Unfortunately, business schools pretend that any student with an MBA should be a great manager right out the gate, regardless of real-world experience." He notes that while many MBA students have worked in business, many of them have never managed people and thus lack the perspective to apply the management theory that they learn.

Management is just too complex a human behavior to be effectively taught in a classroom environment, according to Ray Tsai, M.D., an MBA candidate at the Wharton School. "You could take a class titled Managing People at Work, where you discuss different theories on behavior, motivation, etc., and do reasonably well academically. But if you don't have some significant experience working with, above, or below other people, you will not really appreciate the full extent of the material."

In the worst cases, the notion that MBAs automatically make great managers can convince people who don't have management potential that they have the ability when their talents would be better utilized elsewhere.

"What's really missing in MBA programs is a sense of purpose," says Pfeffer, citing the reasons people seek advanced degrees in law, medicine, or engineering. "With an MBA, it seems that the main motivation is the ability to max out your 401(k) contribution, and that's just not good enough to make you a good manager."



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REASON # 4: MBA PROGRAMS TOUT DUMB FADS

Check out the curriculum of most business school programs and you'll find the course descriptions chock full of Dilbertesque biz-blab.

For example, one course at the Harvard B-school once promised to teach students how to address "cannibalization, network externalities, and globalization" and "generate superior value for customers by designing the optimum configuration of the product mix and functional activities."

Say what?

A recent "Atlantic Monthly" article lambasted management theory, the very heart of the MBA curriculum. Authored by Matthew Stewart, the former founder of a management consulting group, "The Management Myth" poked holes in the history of management studies and made a compelling case that the attempt to turn management into a science had generated little more than a series of self-contradictory opinions.

For example, he notes that all management theory tends to fall into one of two categories: rationalist (manage by the numbers) and humanist (inspire and empower), even though the two approaches result in diametrically different management behaviors.

Stewart also took MBA programs to task for promulgating what he called "such gems of vacuity as: '[business process reengineering] is taking a blank sheet of paper to your business!' and 'BPR means rethinking everything, everything!'"

The incorporation of management fads into the MBA curriculum lessens the usefulness of the degree because, in practice, these pop theories often are more disruptive than helpful. "You know how it goes, the same company that did quality circles is now doing re-engineering," complains Frank Ingari, chairman of Purkinje, a provider of practice management services to physicians. "Did they ever connect those two concepts?"



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REASON #5: B-SCHOOLS FOSTER CHEATING

Ever wonder why corporate ethics are in the toilet? Wonder no longer. It may all stem from the way MBAs are taught.

A landmark study, funded by the Academy of Management Learning and Education, revealed that 56 percent (!!!!) of MBA candidates admitted to cheating. It turns out that MBA candidates are plagiarizing, copying from other students, and bringing prohibited materials to exams in much higher numbers than nonbusiness graduate students. The implication was clear: MBA programs were unwittingly encouraging, or at least tolerating, the kind of behavior that ultimately results in Enron or WorldCom-type scandals.

The real problem may lie in the mindset that accompanies the MBA experience, according to Linda Klebe Trevino, a professor of management and organization at the Penn State Smeal College of Business and a co-author of the report on cheating. "An MBA is often seen as a ticket to more lucrative employment, so perhaps getting the degree is more important to them than the knowledge gained along the way," she explains. "Along the same lines, it may be a 'bottom-line' mentality - that performance is what matters, not how you get there."

That's a dangerous perspective that's made worse by the general failure of business schools to do much to catch and punish cheaters, according to Pfeffer. "If a student is caught cheating, the professor risks being accused of persecuting the student," he explains. "The accusation is then passed through a review board consisting mostly of students. And in the unlikely event that the student is found guilty, [he or she] is simply given a slap on the wrist - like a one-quarter suspension, rather than expulsion."

The risk to the professor's career often is not worth the effort. Pfeffer adds, "What's resulted is a tolerance of behaviors that, in their larger manifestations, are poisoning the American corporation." So unless your career plans include the concept of cheating your way to the top, you might want to reconsider paying \$100,000 to learn how to do so.