

# Is The MBA Overrated?

Our surprising research suggests that few execs who hit the very top have the degree

In the executive pantheon, David K. Zwiener might be considered a minor god. An executive vice-president at Hartford Financial Services Group Inc. ([HIG](#)), he joined the company in 1995, serving as chief financial officer, president of its property and casualty business, and director. As a graduate of No. 1-ranked Kellogg School of Management at Northwestern University, Zwiener is one of 47,000 living alumni of one of the world's most prestigious MBA programs. But he has an unusual distinction: In 2004 his \$3.7 million pay package made him one of only three Kellogg MBAs among the 500 highest-paid executives in the Standard & Poor's ([MHP](#)) 100-stock index that year. "It opens that first door for you," Zwiener says of MBAs in general, and his in particular. "After that, it's up to you."

Zwiener's experience points to a little-realized fact about the MBA: It only gets you so far. In fact, for those seeking a job at the very top of the corporate hierarchy, it's not even a requirement. *BusinessWeek* research has found that fewer than one out of three executives who reach those lofty heights do so with the help of an MBA. And if you think a sheepskin from a top school is a necessity, think again. Only half of the executives with MBAs went to the top 10 schools in the 2004 *BusinessWeek* ranking.

The good news for MBA fans: If graduates do end up on top, the investment in time, effort, and lost wages will have been worth it. In all, the MBA-toting highly paid S&P 100 executives in our study earned on average nearly \$8.4 million in 2004, including salary, bonus, stock, and stock options, while those without the degree pulled in \$7.1 million, amounting to an MBA pay premium of about 19%. But much of that "value" appears to stem not so much from the merits of individual schools as from a complex interaction of factors, including carefully cultivated B-school brands.

*BusinessWeek* examined the five highest-paid executives at each of the S&P 100 companies in 2004, the most recent year for which data are available. We then tracked their educational credentials, obtaining information on 441. Finally, we calculated the pay for all 500 executives and combined that data with statistics about each school's alumni base as well as company performance for 2002-04. Given the incomplete nature of some of the educational information, the findings aren't airtight but represent a reasonable correlation between education and professional attainment.

Some startling numbers came to light. Only 146 of the 500 executives reported having MBAs, a surprising number considering the hundreds of thousands of B-school alumni with enough experience to qualify them for top jobs. What's more, only 71 received MBAs from the top 10 B-schools, and two-thirds of those executives have degrees from just three institutions: Harvard Business School, Stanford University's Graduate School of Business, and the University of Pennsylvania's Wharton School.

## TIMING IS EVERYTHING

Considering the hordes of living alumni from each of the top 10 schools, the number of grads who ended up in the stratosphere of pay seems remarkably small. Only about one out of every 4,000 alumni of top 10 MBA programs were among the highest-paid executives in 2004 -- the equivalent, in a class of 250 students, of one lucky soul striking it rich every 16 years. Since the alumni numbers include retirees, as well as new alumni who lack adequate experience for a top job, the actual odds of being catapulted into the upper echelons are somewhat better. But that's little consolation to the alumni at Kellogg, for example, where one out of more than 15,000 made it to the top, compared with about one out of 1,500 for Harvard.

To hear B-schools tell it, an MBA is the price of admission to the ranks of senior managers. While it may or may not improve the odds of landing such a job, it is not, strictly speaking, a requirement. Timing plays a big role. Most of the MBAs in the study -- including such high-profile CEOs as General Electric Co.'s ([GE](#)) Jeffrey R. Immelt, from HBS class of 1982 -- graduated more than 20 years ago. Back then, B-school admissions were determined almost entirely on the basis of test scores, and many students lacked the people skills now recognized as critical to managerial success. So MBAs from that generation might be underrepresented in the executive suite today. This was also the era before the B-school rankings. At the time, MBAs -- even those from highly respected schools like Harvard, Stanford, and Wharton -- didn't have the marquee status they possess today.

Thus, many up-and-comers from that generation went without the MBA and did just fine. American Express ([AXP](#)), Citigroup ([C](#)), and IBM ([IBM](#)) all have CEOs without MBAs. And those are far from the exception. Consider Frederick W. Smith of FedEx Corp. ([FDX](#)). He got a BA from Yale in 1966, did a stint in the Marines, then came back and founded the express carrier, which he would expand into a \$31 billion company over the next 35 years. Steven A. Ballmer dropped out of Stanford B-school to do the bookkeeping for a tiny startup that would grow into Microsoft Corp. ([MSFT](#)), where he is now CEO. And CEO H. Lee Scott Jr. of Wal-Mart Stores Inc. ([WMT](#)) went on to a 25-year career at the retail behemoth after a BS in business at Pittsburg State University in Kansas.

Headhunters say that while an MBA may help land a first job after graduation, the career benefits from that moment on are almost nonexistent. "In the pure Darwinian world we live in, pedigrees mean nothing," says Peter D. Crist, chairman of Crist Associates, a Hinsdale (Ill.) executive search firm. "It's instinct, it's hard work, and it's raw intelligence."

In such a world, a credential that makes people better managers should confer an evolutionary advantage. But *BusinessWeek's* research calls that premise into question. Examining company performance for 2002-04 shows that outfits run by CEOs with MBAs do, in fact, have modestly better return on equity than those run by non-MBAs. But median shareholder return for the MBA-run companies was significantly worse -- 7.4%, versus 9.9% for outfits run by non-MBAs. Researchers at Pace University came to similar conclusions but went a step further. They examined the 2000-02 performance of

all companies listed on the New York Stock Exchange that were run by CEOs with U.S. undergraduate degrees and discovered that those with MBAs from top schools performed no better than those with less prestigious degrees. "If you go to Harvard, you're more likely to meet successful people who will enable you to do well," says Aron A. Gottesman, an associate finance professor at Pace. "You're not necessarily a better manager."

If MBAs aren't necessarily better at their jobs, what explains their pay premium? A big factor is the B-schools' carefully crafted brands. That's especially true for grads of top-ranked programs, who are frequently perceived by recruiters as the safe choices in a sea of maybes. Among the 71 alumni of top 10 schools who landed in the high-paid group, Harvard and Stanford grads pulled in \$10.9 million and \$11 million, respectively. Those from Wharton and Chicago -- which fared better in the 2004 B-school ranking -- made less, with average compensation of \$7 million and \$8 million. When setting pay for new grads, recruiters consider school reputation to be more important than student quality, according to a new study. "The more prominent the school, the higher the salaries," says Violina P. Rindova, an associate professor of strategy at the University of Maryland who co-authored the research.

#### SELF-FULFILLING PROPHECY

Thanks in part to rankings, many top programs enjoy reputations, based on student satisfaction and other factors, that bear little relation to success in landing alumni at the pinnacle of corporate power. In fact, three of *BusinessWeek's* top 10 programs -- Cornell, Dartmouth, and Massachusetts Institute of Technology -- had just one alum each among the 500 highest-paid executives; Kellogg and the University of Michigan didn't do much better. The schools say their grads have reached the upper echelons of several companies that are not in the S&P 100. Kellogg cites CEOs Philip A. Marineau of Levi Strauss & Co. and Robert A. Eckerd of Mattel Inc. ([MAT](#)) from the classes of 1970 and 1977 respectively. "We do have people strike it rich," says Karin Ash, director of Cornell's Career Management Center, "but in different ways."

At the very top of the B-school pyramid, a self-fulfilling prophecy appears to be at work. High rankings bring in scores of applicants, allowing the best programs the luxury of being highly selective. Stanford, for example, rejects nearly 9 out of every 10 applicants. The result: a concentrated pool of talented students who would likely succeed under any circumstances, including skipping B-school altogether. Says Jeffrey Pfeffer, professor of organizational behavior at Stanford and longtime critic of B-schools: "If you are good enough to get in, you obviously have enough talent and abilities to do well, regardless."

Maybe so, but for those who do opt for the B-school route in the hope that it will land them a top job, they shouldn't be surprised to learn that the degree, whatever its merits, is optional. In fact, the road to executive success that leads through B-school is, when it comes right down to it, the road less traveled.