Overpriced or priceless?

MBAs are becoming more costly. Are they worth the money?

Times really must be tough. A recent study by the National Association of Independent Colleges and Universities has found that tuition fees at private American institutes of higher education increased by only 4.3% in 2009, the lowest annual rise for nearly 40 years. Even business schools, used to raising their fees with near impunity, have not been exempt from the market conditions. The average annual tuition fee for a full-time MBA programme at the top 10 American schools in the Economist Intelligence Unit's ranking is $46,839, up 4.9% on 2008. This compares with a 5.8% rise a year earlier. If business schools are responding to the financial pressures faced by prospective students in these straitened times, the response of many may be a resounding “it’s about time.”

Business education—and in particular its flagship qualification, the MBA—has been getting steadily more expensive with each passing year. Ten years ago, the cost of two years' tuition at Harvard Business School would have set you back $54,000—approximately $69,000 when adjusted for a decade’s worth of inflation. Today it is over $92,000, and that’s before the health-service fees and miscellaneous programme-support fees that add considerably to a student’s budget.

Price rises may have been more modest this year, but there is little chance of below-inflation increases any time soon. This is because, in America in particular, whilst students may have financial worries, so do the schools themselves. Unlike their counterparts in Europe and on the Pacific Rim, American schools tend to be substantively funded by endowments and donations by alumni. At Stanford Graduate School of Business in California, for example, as much as half of income is generated in this way. And as the recession drags on, the flow of cash has dried up (which may explain why its two-year, full-time MBA is now one of the world's most expensive at $102,642).

Life of luxury

This does not mean that any leading school is facing financial Armageddon. Harvard may have seen its endowment shrink in the recent market crash, but the business school still had $2.8 billion in its coffers at the end of 2008, so don't expect to hear the rattle of collecting tins in the street quite yet. Still, if funds are not being topped up, schools at least need to ensure that they last. Consequently most American institutions have looked to tuition fees or cost-cutting rather than reaching deep into their sizeable pockets to address the downturn.

Although European schools are not as affected by the fall in endowments, their top programmes have also been subject to price creep over the past decade. Nonetheless many are adamant that increasing costs are not having an effect on the level of applications. According to Valérie Gauthier, associate dean at HEC School of Management in Paris, tuition fees rank fairly low on the list of reasons why candidates apply for its MBA programme. Rather, a school’s reputation—that somewhat subjective criterion—seems to be the deciding factor in most cases. However, Professor Gauthier also points out that the issue of cost can come back to haunt a school once students take up their place in the classroom. “An MBA from a top school has become a luxury item that people are willing to invest in, even get into debt for,” she says. “However, this has understandably turned MBA students into demanding, high-end consumers with very definite expectations about infrastructure and services.” To help satisfy these expectations HEC has invested heavily in initiatives such as mobile technology. Its partnership with Apple brings course materials direct to a student’s phone—a level of access undreamt of ten years ago.

So how much return on investment can students really expect from their hard-earned dollars, pounds or euros? And are the cost increases of recent years really justified?

Rose Martinelli, an associate dean at the University of Chicago's Booth School of Business, makes the point that it is not just the cost of receiving business education which has risen, it is also the cost of providing it. She makes the case that MBA programmes are now much more resource-driven than they were a decade ago, citing a new career-management centre, more teaching facilities, increased use of technology and greater use of mentoring and coaching as examples at her own school.

It's a valid argument. A pre-dotcom MBA student dropped into a present day programme would barely recognise his pampered, modern-day colleague. And one other expensive feature that might come as a surprise would be the sheer diversity of the class. Ten years ago even the more international programmes drew most of their participants from the host country, with the balance largely recruited elsewhere in the developed West. Now schools spend large sums touring the world to promote their wares on every continent but Antarctica.

Furthermore, working out the return on investment an MBA programme can deliver has always been challenging. Most rankings focus on shorter-term benefits such as the difference between pre- and post-programme earnings. However, in recent years the popularity of the qualification has allowed top schools to cherry-pick the very best candidates, candidates who, in most cases, are already high earners. As a result, the immediate effect on earning power diminishes and so too does the perception of value for money.

Perhaps the only way that the true return on an MBA can be measured is by looking at its effect over the course of five or even ten years. This may seem a leap of faith—especially right now—but students can take heart by examining the careers of successful alumni. And then the rising cost of the MBA experience may not seem so daunting after all.

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