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Do MBA Degrees Matter? A Study of Boards of Directors in Australia's Top 200 Companies

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Abstract: Pfeffer and Fong (2002) suggest that "business school enrolments have soared and business education has become a big business". The Master of Business Administration (MBA) degree has often been held out to be useful in the career development of managers. The highest level that managers can aspire to, is to be a director of a large public company. This study investigates how many directors within the boards of Australia's top 200 companies by market capitalization hold an MBA degree. We find that larger companies have proportionally more MBA holding directors than smaller companies. Interestingly we also find that proportionally more women hold MBAs than men; nearly one in five women directors hold an MBA within the top 200 companies dataset.

Keywords: Business Schools, MBA, Board of Directors, Women Directors, Management

Introduction

THERE HAS BEEN a great deal of discussion in the literature regarding the boom in business schools and the number of students earning the Master of Business Administration (MBA) degree, along with the impact of an MBA on the holder's future earnings and advancement prospects. Some studies show MBAs help their holder obtain increased salaries and advancement opportunities (Davies and Cline, 2005), along with higher career satisfaction (Zhao et al, 2006). Another study suggests that there is in fact no advantage in obtaining an MBA, unless the graduate has no previous work experience, or has obtained their graduate degree from one of the top business schools (Pfeffer and Fong, 2002).

The MBA degree has however often been held out to be useful in the career development of managers. The highest level that managers can aspire to, is to be a director of a large public company. If an MBA is useful to the career development of managers it would be reasonable to expect a large number of directors of boards would hold an MBA. This study investigates the numbers and proportions of directors who hold an MBA degree within the boards of Australia's top 200 companies by market capitalization.

Related Literature

The literature relating to the usefulness of an MBA for career advancement is mixed. Pfeffer and Fong (2002) argue that possessing an MBA has little effect on either graduate salaries or career attainment in the longer run. They point to soaring enrolments and

the growth in the number of business schools, but question the relevance of their "educational product" (pp.78-79). They claim that the skills students learn do not help equip them for business management, partly because management is a "practice craft, and the typical business school experience is too far removed from the context of business." (p.85). Further, Pfeffer and Fong (2002) claim that the degree itself "does not have much effect on graduates' salaries or career attainment" (p.80). Students that do gain from obtaining an MBA are those that have graduated from the most prestigious schools; thus it is the selectivity of these programs, allowing potential employers to select from a "pre-screened pool" (Leonhardt, 2000, p.18) that guarantees the graduates' success. Effectively, having an MBA from a prestigious school marks a person as being good enough to be selected for that school; any further skills gained are irrelevant. Pfeffer and Fong (2002) back this claim by arguing that the types of courses offered by schools are very similar, so the differences in graduate outcomes must come from the differences in the student bodies.

If MBAs do mainly offer a market signal to employers rather than a valuable education, then Pfeffer and Fong (2002) suggest that the rapid increase of the supply of business schools with stable (or possibly declining) demand for places means that the advantage of holding an MBA is diluted. They further point to the lack of barriers to entry into the profession (unlike professions such as medicine and law that mandate the achievement of a certain degree), thus "it is not surprising that there is a smaller effect on various economic outcomes" (p.83).



Pfeffer and Fong's 2002 paper brought forth a number of studies seeking to contradict and refute their findings, as well as some that have offered support for some aspects of these findings. Most of these have concentrated on surveying graduates from various schools, examining variables such as pre and post MBA earnings, student satisfaction arising from their MBA and subsequent career opportunities, and students' achievements 10 years on.

Connolly (2003) examines the difference between the salary of MBA program participants at the beginning and end of their MBA studies over a 4-year cycle at the University of Miami, and finds an average after tax rate of return of around 10%. These findings are supported by the results of a survey of new graduates conducted by *Business Week* (2000), and a further survey of people who graduated 10 years ago (*Business Week* 2003).

Davies and Cline (2005) analysed data from 1993 – 2001 and concluded that an average graduate with an MBA will receive a higher starting salary and growth of compensation than a graduate with just an undergraduate degree. The real rate of return on a student's investment in their MBA was calculated to be around 15%.

Zhao et al (2006) conducted a survey of MBA graduates from one business college (who graduated between 1996 and 2002) and found that the graduates felt that their MBAs have had a positive effect on employment, income, promotions and job performance and satisfaction. 63% of those surveyed were mid-level managers (with 18% at top executive level).

Livingstone (2007) surveyed Fortune 1000 senior executives and reported that the executives found the MBA to be useful but not extraordinary in preparing graduates for the business world. The survey also found evidence that suggests that executives are looking for more experiential learning amongst graduates; this finding offers some support for Pfeffer and Fong's (2002) claim that management skills require practice rather than (or together with) academic learning.

There is support for Pfeffer and Fong's (2002) claim that benefits to graduates depend on the prestige of the institution they attended in an article in *The Economist* (1994). The article suggests that the highest returns to graduates who have completed an MBA come from programs that also have the highest academic reputation (measured by number of research citations). However the article uses these findings to suggest that a good MBA offers skills that practice alone cannot, and that gaining academic knowledge through MBA programs gives their graduates a competitive edge.

Carpenter (1997) finds that the "payoff" from completing an MBA depends on how much you were earning to start with (with those on higher starting salaries taking much longer – if ever) to recoup the total costs of the MBA) and also the business school you went to. Carpenter also suggested there are better job opportunities for MBA graduates in blue chip consulting firms and investment banks.

Dreher and Ryal (2002) examined the relationship between work experience prior to undertaking an MBA, and career outcomes (looking at variables such as salaries, promotions and career satisfaction) after completion. They found that MBAs provided more benefits to those with limited work experience before they undertook the MBA than those with even a couple of years of work experience; in fact requiring work experience before allowing students to enrol in an MBA degree could be counter-productive. Milne (2001) polled 100 executives from Canada's 1,000 largest companies and found that 86 percent of top executives said a graduate degree in business is either very, or somewhat important to reach senior management ranks within most organisations.

Data and Findings

Data on Australia's top 200 companies by market capitalisation as at March 2007 were collected from the FinAnalysis database. This included data on each of the directors of each of these companies, including their gender, and whether the director had an MBA degree. The companies were also categorised by GICS sector (Global Industry Classification Standard) to see whether MBAs were more highly represented in certain types of industries.

Table 1 summarises the proportion of men and women in Australia's top 200 companies by market capitalisation broken into groups of 50, and in aggregate. Women appear to be significantly under-represented, making up only 8.2% of all directors in the top 200 companies. Interestingly, the proportion of women in the top 50 companies (13.2%) is more than three times the proportion of women in the bottom 50 of the 200 (4.0%) – the proportion decreases as the companies become smaller on average. It appears that larger companies tend to employ more women directors than men directors. What is also interesting is that larger companies tend to employ more directors overall than smaller companies. These proportional figures have not changed significantly since a study conducted on gender composition of the top 200 Australian companies in 2004 (Dimovski and Kelly, forthcoming).

Table 1: The Gender Composition of Australia's Top 200 Companies by Market Capitalisation

Sample size – 200 Companies by Capitalisation	2007 Directors		
	Men	Women	Total
Top 50 (% of top 50)	401 (86.6)	61 (13.2)	463
51 – 100 (% of next 50)	355 (92.2)	30 (7.8)	385
101 – 150 (% of next 50)	332 (94.0)	21 (6.0)	353
151 – 200 (% of top 50)	336 (96.0)	14 (4.0)	350
Total (% of total)	1424 (91.8%)	126 (8.2%)	1551

Table 2 shows the proportion of men and women who hold an MBA degree in the top 200 companies, again broken into quartiles of 50. A total of 198 of the 1551 directors, or 12.8% of all directors in the top 200 companies hold MBAs. 175 of the 1424 male directors hold an MBA, or 12.3%, whilst 23 of the 126 female directors hold an MBA, or 18.3%. This suggests that slightly more than one in eight directors in aggregate hold an MBA while nearly one in five women hold the MBA degree and slightly under one in eight men hold the degree.

There are significantly more women with an MBA degree in the top 50 companies than in each of the other three quartiles, as well as many more women with the degree in the top 50 companies than in the other three quartiles combined. It is also worth noting that more men MBAs are employed in the top 50 companies quartile than in each of the other 3 quartiles. It appears that larger companies generally employ more MBA holding directors than smaller companies.

Table 2: The Proportion of Men and Women Holding an MBA Degree in Australia's Top 200 Companies

Sample size – 200 Companies by Capitalisation	MBAs		
	Men	Women	Total
Top 50 (% of men/women)	59 (14.7)	13 (21.3)	72 (15.6)
51 – 100 (% of men/women)	41 (11.6)	2 (6.7)	43 (11.2)
101 – 150 (% of men/women)	42 (12.7)	5 (23.8)	47 (13.3)
151 – 200 (% of men/women)	33 (9.8)	3 (21.4)	36 (10.3)
Total	175 (12.3%)	23 (18.3%)	198 (12.8%)

Table 3 shows the break-up of MBA degrees into different types of companies by GICS classification. A total of 52 of the top 200 companies are classified as Financials and hence engaged in banking, insurance or other financial activities. Of the 52 Financials firms employing 419 directors of the 1551 total directors, only around 12.7% of directors in total in this industry sector hold an MBA degree. While there appear to be proportionally more directors employed in this sector, principally because they are larger

firms, the figures do not support the finding in Carpenter (1997) that there are more opportunities for MBA holders in banking; it appears the percentage of MBA holders in the Financials industry sector is not significantly greater than the overall average. Interestingly 7 of the total 23 women directors are employed in this sector making it the largest female MBA employing sector.

Of the 35 Consumer industry sector firms employing nearly 300 directors, only 30 of the directors hold

MBAs with only 27 of the 267 male and 3 of the 31 female directors holding an MBA degree. There are 38 Materials industry sector firms in this data set, which include chemical materials, construction materials (including cement, sand and concrete), metal (including steel), aluminium, timber and timber products materials, gold and gold mining firms. Materials industry sector firms employ nearly 290 directors. Only 41 of the directors hold MBAs with only 40 of the 271 male directors and 1 of the 13 female directors holding an MBA degree. The sector does not appear to be a particularly appealing one to women MBA holders.

There are 32 Industrials industry sector firms, which include building, construction, electrical, heavy machinery and trading and distribution companies; these employ nearly 240 directors. Only 25 of the directors hold MBAs with only 21 of them being male directors and 4 of them being female directors. There are

16 Energy industry sector firms employing 114 directors, of which only 5 are women. A total of 13 hold an MBA degree, of which only one is a woman. Women seem to be under-represented in this sector both as directors and as MBA holders.

There are 11 Utilities and 11 Health Care firms in the top 200 Australian firms by market capitalisation. They employ 82 and 76 directors respectively. They also employ 18 and 13 MBA holding directors respectively and tend to have proportionally more MBAs on their boards than other industry sectors (including proportionally more women directors, although given the small sample sizes in these two industry sectors, this gender result is not particularly robust). It is worth noting also that there are only 3 male MBA holding directors (no female holding MBA directors) amongst 42 directors in the 5 telecommunications and information technology companies.

Table 3: MBAs by GICS Category

GICS (number of companies)	Men	Women	Total	Men with MBAs (% of men)	Women with MBAs (% of women)	Total MBAs (% of total)
Consumer (35)	267	31	298	27 (10.1)	3 (9.7)	30 (10.1)
Energy (16)	109	5	114	12 (11.0)	1 (20.0)	13 (11.4)
Financials (52)	375	44	419	46 (12.3)	7 (15.9)	53 (12.7)
Health Care (11)	71	5	76	12 (16.9)	3 (60.0)	15 (19.7)
Industrials (32)	222	16	238	21 (9.5)	4 (25.0)	25 (10.5)
Materials (38)	271	13	284	40 (14.8)	1 (7.7)	41 (14.4)
Telecom (3)	22	5	27	2 (9.1)	0	2 (7.4)
Utilities (11)	76	6	82	16 (21.1)	2 (33.3)	18 (22.0)
Information Technology (2)	14	1	15	1 (7.1)	0	1 (6.7)

Conclusion

This paper has examined the numbers and proportions of MBA degree holding directors within Australia's top 200 companies. It finds little evidence that an MBA is an absolutely essential qualification for a director, with only about 13% of directors holding such a degree. We find however that the larger, higher market capitalization companies have proportionally more MBA holding directors than

smaller companies. Interestingly we also find that proportionally more women hold MBAs than men; nearly one in five women directors hold an MBA within the top 200 companies dataset. Also, Financial Services firms in Australia do not employ any more MBA holding directors than the average, but this sector is the largest female MBA employing sector.

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