

Calculating the ROI of an MBA

A photograph of the Berkeley Haas building, a large, multi-story brick structure with several dormer windows. In the foreground, there is a stone archway covered in red and orange autumn foliage. The sky is blue with light clouds. The text 'BerkeleyHaas' is overlaid in white at the bottom center of the image.

BerkeleyHaas

Earning a Master of Business Administration (MBA) graduate degree can revitalize career paths and change lives—but it can come at a high financial cost. Tuition and fees at the top-20 ranked business schools total \$34,000 to \$69,000 per year, though most tend to [cost between \\$55,000 and \\$68,000 per year](#). That kind of investment understandably gives pause to many potential MBA students, some of whom may still be paying off student debt left over from their undergraduate degrees.

While MBAs are certainly a significant investment, they may be a wise one. For the right people looking to shift or improve their career paths, an MBA degree can open doors not previously imagined and can offer both tangible and intangible, financial and non-financial benefits.

Once you know what those assorted benefits are, you have something against which to measure the estimated cost of your MBA degree. This allows you to more accurately and contextually calculate a return on investment for a professional business degree. And if you decide to pursue an MBA, this same line of thought can also help you select the best MBA program for your needs.



MBA BY THE NUMBERS



Consider these statistics for [2017 graduates](#) from the the 20 top-ranked full-time MBA programs in the U.S., quoted directly from *U.S. News & World Report*.

- Overall, 91 percent of job-seeking MBAs from those schools found jobs within three months after graduation
- Graduates who were employed within three months of receiving a degree earned an average base salary of more than \$125,000, but those in high-demand metropolitan areas often earn much more. 2017 graduates of the Full-time Berkeley MBA Program, for example, entered the program with an average salary of \$73,072 and went on to land post-MBA positions at an average salary of \$125,572—a nearly 72 percent increase.
- Those same graduates' salary plus signing bonus on average totaled more than \$147,000.
- Graduates of the 10 top-ranked full-time MBA programs earned an average base salary of more than \$131,000 and an average of more than \$152,000 for base salary plus signing bonus.

However, these statistics only scratch the surface at the potential ROI an MBA could offer.

14 STEPS TO CALCULATE THE ROI OF AN MBA

1 DETERMINE THE AVERAGE SALARY-TO-DEBT RATIO

The cost of an MBA can be relatively high, but that cost coincides with higher starting salaries for MBA graduates. Experts predominantly calculate and compare an MBA program's ROI to others using the [average salary-to-debt ratio](#). The figure used for the salary component tends to be based on starting salaries, while the debt figure is the total debt you would assume to attain the degree. This is one of the most common methods you'll see quoted by experts and news media.

For example, the US News study found that the average starting salary was around \$125,000 ([MBA salaries in large metro areas](#), such as the San Francisco Bay area, are likely much higher), while the debt reported from 11 of the top 20 schools started at 74,199 (average of 95,260). That is a salary-to-debt ratio of 1.7-to-1.



2 FACTOR POTENTIAL SIGNING BONUSES INTO THAT RATIO

In addition to starting salary, MBA graduates should also consider potential signing bonuses, which can help make a dent in student loan payments. U.S. News reports that of the top 20 ranked business schools for 2019, the average salary and bonus is \$147,530 – more than enough to quickly pay back the debt incurred in obtaining the MBA.

3 CONSIDER LONG-TERM SALARY PROJECTIONS

Long-term salary projections account for raises and other income boosts an MBA graduate might earn over time. You can then use that projection instead of a starting salary to calculate the salary-to-debt ratio. The time period may vary, but about 10 years is a typical length of time to calculate. Experts can then compare their projected 10-year salary with a 10-year salary without an MBA for another ROI factor.

5 ASSESS THE VALUE OF THE EDUCATION ITSELF...

The skill sets and knowledge of advanced business concepts are a clear benefit of any MBA degree, as you, personally, become a more knowledgeable and capable manager or business owner. But it also benefits any future employer thanks to the increased productivity and higher-quality employee that MBA programs tend to produce.

COMPARE MBA PROGRAMS IN GENERAL TO OTHER PROFESSIONAL DEGREES 4

Aside from the degree itself and the education and implications it brings, you can also compare the MBA experience with other professional degrees. A typical [full-time MBA degree program](#) takes about one to two years of school. Medicine or law degrees, however, take longer to complete—and take longer for you to begin working at your new higher pay rate.

...AND THE SOFT SKILLS THAT CAME WITH IT 6

In addition to more complex business concepts, an MBA program will also emphasize the importance and teach the finer points of effective teamwork, leadership, problem solving, self-reflection and assessment, and critical thinking. These more pragmatic concepts may apply more generally for successful people across the board, but they are especially critical.

7 WEIGH THE FREEDOM OF ENTREPRENEURSHIP (WHEN APPLICABLE)

The sense of independence that comes from owning your own business cannot be understated, but it's also not easily financially quantified. Some individuals prefer to have control over their entire business, while others may prefer smaller managerial roles with another company to actual business ownership. This is a personal preference, and entrepreneurship certainly is not for everyone. But for those whom entrepreneurship does work for, the freedom alone can be well worth the cost of the degree.



IMPROVE YOUR JOB MOBILITY 8

If you are already employed with a company, earning an MBA could fast-track your next promotion—and the raise that will undoubtedly come with it. If you're out of a job or unhappy with your current one, your MBA could be the final weight in a decision for another employer to hire you. And if you own your own business, this degree could be key to establishing and increasing trust among your clientele and colleagues.

9 EXPAND YOUR ROLODEX (OR LINKEDIN NETWORK) WITH YOUR PROGRAM'S ALUMNI NETWORK

The [alumni from your MBA program](#) could easily produce a built-in Rolodex of business colleagues scattered across any and all industries. Fellow grads could end up being networking aids or referral sources, depending on where your MBA experience leads you. Beyond professional relationships, this alumni network could also produce valuable friendships and the lifelong encouragement, support, and work-related understanding that comes with them.

Whether you befriend fellow students during the program or network with them afterward, this group of people could be instrumental in your shared successes.



TAKE ADVANTAGE OF YOUR SCHOOL'S POOL OF PROFESSORS 10

Like fellow MBA students and graduates, professors can also be invaluable as potential personal and professional mentors. They themselves could introduce you to anyone in their own Rolodex of business contacts, cultivated possibly over decades. With many programs [offering lifelong learning benefits](#), professors can be an invaluable source of knowledge even after you graduate, which increases the more intangible return you enjoy from this degree over time.

11 UTILIZE YOUR PROGRAM'S CAREER RESOURCES

Besides professors, your school may also offer an array of online or on-campus [career coaching and career-development resources and services](#). These could also offer an advantage when seeking a new position during your studies (if you're in a part-time or executive program, the first post-MBA job position), or when seeking further educational opportunities after graduation.



REDUCE YOUR OPPORTUNITY COST WITH A PART-TIME OR EXECUTIVE MBA 12

If a full-time MBA program is too much of a commitment, you could reduce your opportunity cost by choosing a part-time or executive MBA program, options which also let you apply learning in the workplace in real time. The cost structure and class schedule may less intensely impact your time, budget, or other resources. To calculate this portion of ROI for an MBA, you can factor in the foregone salary cost of a full-time program compared to the part-time or executive MBA you chose instead.



13 BROADEN YOUR WORLDVIEW

MBA graduates were surveyed about their perceived [financial and non-financial costs and benefits](#) of their professional degree. Among the top non-financial costs was a broadened worldview and increased wisdom, gleaned from the classroom and from on-the-ground travel and [global consulting opportunities](#). While certainly applicable to business, this broadened worldview can positively impact many other aspects and relationships in an MBA grad's life.



INCREASE YOUR SELF- CONFIDENCE AND SELF- WORTH 14

In that same study, participants also ranked increased confidence as one of the highest-weighting and most important non-financial benefits of earning an MBA degree. The power behind those three letters is palpable in the business world and among those in the know.

Anyone who puts in the time, effort, and dedication to completing this degree achieves something worth being proud of. Not only is this a noteworthy achievement in general, but an investment in yourself and career that will continue to propel your efforts going forward.

OVERALL ROI OF AN MBA

Your Calculation

STEP 1

A. Expected salary with MBA	125,000
B. Expected debt after MBA program	75,000
C. Expected salary-to-debt ratio (divide A/B)	1.7-to-1

STEP 2

D. Expected salary with signing bonus	150,000
E. Expected salary-plus-bonus-to-debt ratio (divide D/B)	2-to-1

STEP 3

F. Current salary without MBA	70,000
G. Projected 10-year salary without MBA Add in expected raises and adjustments: try this tool	849,939
H. Projected 10-year salary with MBA Don't forget the signing bonus from D	1,630,147
I. 10-year Direct ROI (H-G)/B	10.4-to-1

STEP 4

J. Compare MBA ROIs to other proposed degrees Consider additional debt, additional time to earn increased salary, etc. Complete the calculations above for your other degree options	MBA 10.4 Law 3.6
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STEP 5

K. Consider the value the MBA education can bring to yourself, your business, or your future employer for the duration of your career	
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STEP 6

L. Consider the value of the soft skills you will acquire	
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STEP 7

M. If you plan on starting your own business, how much is the freedom of entrepreneurship worth to you?	
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OVERALL ROI OF AN MBA

Your Calculation

STEP 8

N. What is the value of job mobility to you?

STEP 9

O. What is the value of the MBA alumni network to you?

STEP 10

P. What is the value of the MBA professors network to you?

STEP 11

Q. What is the value of the MBA career management portal to you?

STEP 12

R. If you plan to pursue a specialized MBA, how much value can that add to your earning potential?

STEP 13

S. Consider the benefits of a broadened world view on your life and career. How much is that worth?

STEP 14

T. How much would increased confidence and self-worth be valued at?

HOW MUCH IS AN MBA WORTH TO YOU?

U. Considering all of the above - both financial gains and intangible benefits that we assigned a value to, how much is an MBA worth to you?