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Is a MBA Degree Necessary to Be a CEO of Large Corporation: The Case of Fortune Magazine Global Top 100 Corporations?

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Abstract

The purpose of this paper is to examine if Chief Executive Officer (CEO) educational level particularly MBA has an impact on the performance of organizations or not. Top hundred companies around the world, who are leading and generating revenue in billion dollars per annum, either their CEO's are MBA holders to make enough strong strategies for growth. The analysis is based upon the data collected form top 100 companies. The data consist of size of company, no of employees, industry, sector, CEO's gender, education, experience, revenue, profit. This research is to study to understand if a Master in Business Administration (MBA) degree is absolute necessary to become a CEO of Global 100 companies; The research will answer if an MBA degree really necessary to become a CEO of Global 100 company?

Keywords: CEO, MBA degree, performance, top 100 companies

1. Introduction

1.1 Research Objective

The purpose of this research is to understand if a Master in Business Administration (MBA) degree is absolute necessary to become CEO of Global 100 companies; the world's 100 largest companies ranked by revenue for FY 2013. The 100 largest company's data were based on Fortune 500 magazines published in June 2014 (Vol. 170, No. 1). The research will focus on the CEO's of top 100 companies in the world and the education background of the CEO's. The research will confirm if an MBA degree is pre-requisite to become CEO in these companies or does A MBA increase the chances of becoming a CEO. The purpose of the study is to identify relationship between getting and MBA and becoming a CEO. The hypothesis to be tested in this research is:

"Do a MBA degree is required to become a CEO of top 100 corporations in the world?"

1.2 Background of Study

An MBA education can open up new avenues and provide candidates with new skills in the workplace. MBA's education is primarily for those seeking to switch careers (typically into finance or consulting roles) or for progression within an already established career. An MBA education is also a path leading to become a CEO of an organization. Very few people make it to the top of the corporate ladder these days without some sort of formal education.

Accredited MBA courses and business schools seek to prepare students for senior management roles in business. They do this by exposing you to all areas of business including accounting, finance, marketing, and human resources. Unlike other Masters programmes which provide further specialization in a specific field, an MBA is interdisciplinary drawing from the fields of psychology, sociology, economics, accounting and finance. The MBA curriculum seeks to provide corporations with candidates of the required managerial skill needed to run them.

Cost of an MBA degree could range from £16,000 to a whopping £73,000. It can be hard to justify leaving your well-paid career in pursuit of the notoriously difficult MBA. Companies are currently starting to sponsor their top employees to study for an MBA education. Many executives are also studying part time for an MBA degree to ensure progression to become top executives. The MBA degree's growth in gaining popularity as one of the few trends in the business world. According to the most recent United States data, from the 2011-2012 graduating class, MBA students accounted for 25% of the total master's handed out, with 191,571 students receiving the degree. Education and computer science/engineering students came in second and third, with 178,062 and 66,014 degree recipients, respectively. In fact, the number of MBAs issued has jumped 623% since 1970; while education master's degrees increased only 103% during that time. Figure 1 illustrates the growth of MBA education in United States.

Figure 1. Master degree growth 1970-2012

Based on another study carried out by INSEAD, the Harvard Business Review (HBR) and Business Today magazine on Indian Companies, 40% of India's top CEOs have an MBA degree. Or in other words, 60% do not. There are no laws stipulating that chief executives must have attended college or that they must have a master's degree. However, very few people make it to the top of the corporate ladder these days without some sort of formal education. Why is having a formal education so important? There is no simple answer to that question; however, completing university courses does provide one with exposure to a number of disciplines and causes a person to think, interact and share ideas with others, which are valuable experiences for a CEO to have. A degree from an Ivy League school or other top-tier institution is sometimes given even more credence because of the competitiveness that often accompanies such programs.

Some big-name CEOs with degrees from top-tier schools include the following: Meg Whitman, former CEO of eBay-undergraduate degree from Princeton, Master of Business Administration (MBA) from Harvard, John Bogle, former CEO of The Vanguard Group-undergraduate degree from Princeton, Roberto Goizueta, and former CEO of Coca Cola-undergraduate degree from Yale. However, some well-known CEOs, however, dropped out or never went to college: Richard Branson, CEO of Virgin Group, Michael Dell, CEO of Dell Computer, Barry Diller, CEO of IAC/InterActiveCorp.

2. Literature Review

Ofe Hosea Ayaba (2012) examined the impact of the educational background of Chief Executive Officers (CEOs) on firm performance of listed firms in the Stockholm stock exchange. She found, this area of research is important given that researchers in the area of behavioral finance and in management argue that CEO characteristics such as educational orientation, age and functional background influence the way business problems are perceived and the decision making process. The numerous and growing challenges which businesses face, particularly in the area of operations, cost-cutting and production efficiency makes the need to examine how CEO educational background could be beneficial for firm performance very relevant. Particular attention is on listed firms in the manufacturing, oil and gas, energy sector characterized by low instability (turbulence) and the IT industry characterized by rapid growth and high turbulence. Educational background information for 100 CEOs is examined between 2008-2010. The information gathered from the annual reports of these companies, shows that the educational path way for most CEOs in these industries has been an engineering degree. The analysis on CEO educational background and firm performance show no significant relationship.

More specifically the regression analysis show no support for the assertion that firms controlled by CEOs with an educational background in engineering have a firm performance advantage or outperformed firms controlled by CEOs with other backgrounds such as law ,marketing and finance. In addition, the finding shows no significant relationship between CEO educational level (undergraduate or postgraduate) and firm performance. The analysis thus showed no support for the claim that firms controlled by CEO with a higher level of education (postgraduate degree) had a superior firm performance over firms controlled by a CEO who had an undergraduate degree.

Sanjai Bhagat, Barian Boltan, and Ajay Subramanian (2010) revealed in their paper that CEO education does not play a large role in the decision by a firm to replace its current CEO; poorly performing CEOs are replaced, regardless of their education. Education, however, does play a significant role in the selection of the replacement CEO; there is a significantly positive correlation between the education levels of new CEOs and those of the CEOs they replace. Further, hiring new CEOs with MBA degrees leads to short-term improvements in operating performance. They, however, do not find a significant systematic relationship between CEO education and long-term firm performance. CEO education does not seem to be an appropriate proxy for CEO ability. Their results lead to the puzzling implication that, while CEO education appears to play an important role in the hiring of CEOs, it does not affect the long-term performance of firms.

Arron and Mathew (2006) represented the empirical relationship between the quality of Chief Executive Officer (CEO) education and firm performance. They raised an important question as many papers in the management literature have postulated that managers with higher educational attainment will be more adaptive and innovative, and more likely to possess other characteristics that may improve firm performance. They found four results in their analysis. First, using the mean entrance scores as proxies for the prestige of undergraduate and graduate programs, they find no evidence that firms with CEOs from more prestigious schools perform better than firms with CEOs from less prestigious schools. Second, they find that firms managed by CEOs with MBA or law degrees perform no better than firms with CEOs without graduate degrees. Third, they find some limited evidence that firms led by CEOs with non-MBA, non-law graduate degrees have slightly better risk-adjusted market performance than other firms. Fourth, they found that compensation is somewhat higher for CEOs who attended more prestigious schools.

Wasserman et al. (2001) found evidence to support the contention that the impact of CEO educational background on firm performance vary across industry. In their recommendation Wasserman et al. (2001) proposed that in firms where CEOs had a large impact on firm performance, it would be good for the board to pay consideration and due diligence in the selection process of a new CEO than in an industry where the CEO had little impact on firm performance. The authors also recommended that in firms where CEOs had a high influence on firm performance through their actions, it would be better for the board of directors to link the compensation of the CEO to be sensitive to the firm performance. On the other hand, CEOs with low effects on firm performance should not have their compensation package tied up to firm performance. Wasserman et al. (2001) argue that, given that leaders vary in their abilities, competencies, skill and perceptions, their actions are bound to have varied impact on the performance of the firms they control. Wasserman et al. (2001) argues that, because CEOs are active agents, they too have personal interest which has a considerable impact on the performance of the firms.

Alice et al. (2000) investigate "the effects of the chief executive officer (CEO) financial orientation on the people/performance balance for IPO firms". Among other hypotheses, they hypothesized that firms that were controlled by a finance oriented CEO were more likely to have a better market potential (firm performance) than other firms managed by CEOs who had a non-financial background. Using data collected from IPO prospectus for firms that went public in 1988 and 1993 in the United States, they had a total of 126 firms for 1988 and 261 for 1993 that filed and went public. Alice et al. (2000) used the Tobin's Q as a measure of the market value (market price/book value per share) of the firm. Using CEO educational background in finance as the independent variable and human resource value as the dependent variable, the results of the study found out no evidence to support the hypothesis that firms headed by a CEO having a financial background performed better than firms headed by CEOs with a non-financial background. One interesting aspects which the study also found was the fact that firms controlled by younger CEOs recorded higher value of the Tobin's Q. Supporting the results of the study, Alice et al. (2000, p. 96) argue that finance oriented CEOs by paying less attention to human resource value and a suitable job environment, they somehow failed to lay out an appropriate foundation for the long term strategic survival of the firms. Alice et al. (2000, pp. 96-97), however called to attention the negligent on employees values by finance oriented CEO may not be an intentional or conscious goal but an unconscious one triggered by the perception and orientation of these CEOs to the world.

Koyuncu et al. (2010), examine the role CEO educational background has on firm performance based on a sample of 437 CEOs of firms selected from S&P 500, from 1992-2005. The results of their study showed evidence in support of the hypothesis that firms managed by a CEO with an educational background in operation related subjects such as engineering had better firm performance than firms headed by CEOs with other functional background. In addition, the results of the study also showed evidence to support that firms which were experiencing low performance were more likely to recruit a CEO with a background in operations than those with a background in marketing, finance, law, or accounting. Also firms managed by CEOs with a functional background in operations were more likely to experience higher post succession performance (firm performance after three years of holding the position of CEO) than other firms with CEOs with a non-operations background. Buyl et al. (2011) compares the performance of firms who were headed by CEO "generalist" (CEO with multifunctional background) to a CEO who had a specialized knowledge in marketing. They based their study on 54 firms in the IT industry in Belgium and Germany. Results of the study showed evidence to support the claim that firms with a CEO who has a marketing background out performed firms headed by a CEO who had a "generalist" background. Buyl et al. (2011) argued that this success recorded by firms managed by CEOs with a marketing background, was because a marketing specialist was able to coordinate, communicate, and exchange ideas with other members of the top management teams and lower line manager effectively than a CEO "generalists".

Sekhar Muni Amba (2013) studied to examine the effect of CEO duality- as a member of board, chairman of the board on firms' performance measures such as ROA, ROE, and Assets Turnover on the listed companies in Bahrain Bourse. Data sample are from 39 companies for three years 2010, 2011, and 2012. This study applied correlation and linear regression analysis. Correlations among the variables and regression models are not found to be significant at 5% level but CEO as a board member positively related with ROE and assets turnover but negatively related to ROA where as CEO as Chairman of the board is negatively related to all performance variables'. Regression analysis reveals CEO duality has no significant effect on firms' performance measures.

Aaron et al. (2010) investigate if the educational background of the CEO had any influence on firm performance. They found no evidence in support that firms managed by a CEO who has an MBA had better performance than firms headed by CEOs who hold a liberal arts degree, or a law degree. The study also failed to show any evidence for the hypothesis that firm headed by CEOs with a postgraduate degree had better performance than firms managed by CEOs with a bachelor or undergraduate degree. Barker & Muller (2002) found positive relationship between CEOs who had a postgraduate degree in technical and scientific background to research and development spending.

Berkeley et al. (1991) use a sample size of 224 companies and found out that there existed some strong indication to support a positive relationship between firm's performance and the educational background of the CEO. Warren et al. (2005) are of the suggestion that it would be very important for firms to link the CEO educational background to the strategy of the firm. Warren et al. (2005) suggests that the educational background and experience of the CEO is often reflected on firm strategy through the way the CEO cognitive attitude and interpretation of events in the business environment. Berkeley et al. (1991) argue that firms managed by a CEO with a broad functional and educational background had better chances of improving their performance than those that were headed by CEO who had a specialist's knowledge. They based their arguments on the grounds that a CEO with a broad functional background could bring broad and new ideas, thereby opening a new page for the company. Warren et al. (2005) studies based on a sample of 282 firms indicate that firms managed by CEOs with extensive functional and executive background had higher level of firm performance (ROA). The results of their study also indicated that it would be important to take into consideration the quality of the functional and educational experience, when this experience was gained, at what level this experience was gained and the intensity associated in the process the experience was gained.

3. Research Methods

To analysis the relationship between the MBA degree of CEO's and organizational performance, we use regression analysis method. So it can be better revealed that top 100 companies in the world have their CEO's with MBA degree. In order to ensure that the measurement and the structure model are precisely specified and the result are valid the study have proposed several steps in the SPSS process, namely "Correlation and Covariance" (Form, Direction, Degree) "Exploratory Factor Analysis", "Reliability", "Regression (Regression coefficients (standardized and unstandardized)".

3.1 Data Collection

The data gathered for this research is based on the list of 100 top CEO's listed if Fortune 500 magazine published in June 2014 based on top 100 companies by revenue generated at end of 2013. Information of top 100 companies, no. of employees and CEO names were gathered from this report. Additional information on respective 100 CEO's was then gathered via various internet websites and also from the 100 companies' respective websites. All of the data is based on secondary data and no surveys were conducted for this research.

The data items which were collected from top 100 companies are; "CEO Education" The background for Employee's perception of a favorable set of circumstances for their future at the organization. "CEO Duality" The extents to which employees have the information they need to do their jobs well. "CEO Age" An assessment of the work processes in place, and the degree to which they allow employees to be productive. "CEO Gender" to check consistency between the promises and organization makes to its employees about working at that organization and the employee work experience. "CEO Citizenship" to check consistency between the promises and organization makes to its employees about working at that organization and the employee work experience. "Type of Industry" The aggregate of manufacturing or technically productive enterprises in a particular field, often named after its principal product. "Type of Company", "Number of Board Members", "Number of Women on Board" and "Number of Employees".

4. Data Analysis and Results

4.1 Gender of CEO

Based on the research on the 100 CEO's in the Global Fortune 100 list, about 96% of the CEO's are male. Only 4% are female. The women CEO are from United States of America. Of the 4 women, 3 of them have an MBA degree. To explore this analysis, we must understand how the attributes that either gender brings to a management position plot on the workplace management map.

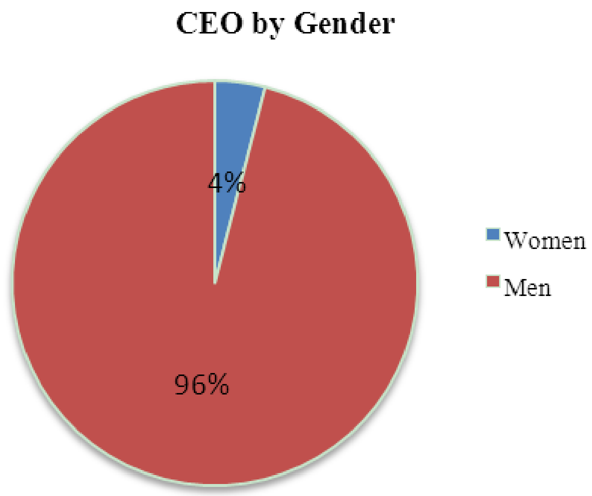

Figure 2. Percentage bifurcation base on gender

4.2 Education of CEO

According to the analysis, 32% of them have an MBA degree (including some with a DBA degree. However, closely second is 34% of the CEO's have an engineering degree. Of the 100 CEO's, 17% CEO's have completed PhD degree, only 2% CEO's have Medical background, 7% related to business studies, 1% have Masters in Pure Science and 18% belonged to other Master Degrees. Interestingly all of the CEO's in the study has a basic degree education. So education is critical to becoming a CEO but a MBA degree is not the only path to become a CEO of top 100 global companies.

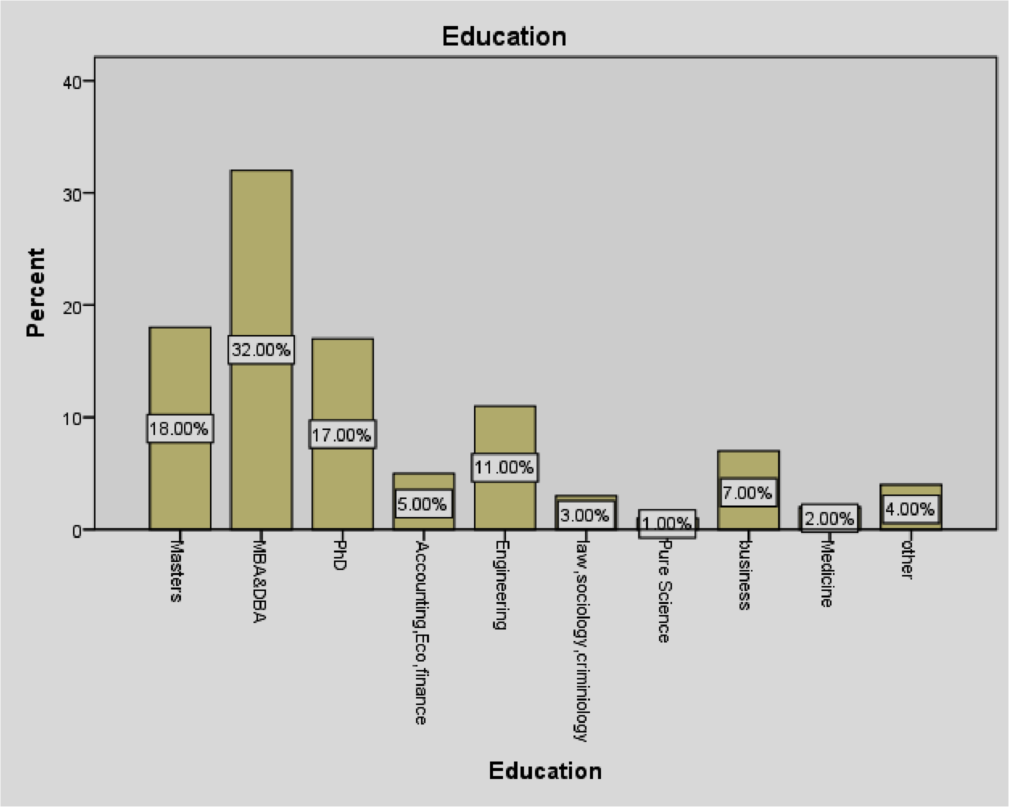

Figure 3. Percentage bifurcation base on education

4.3 Average Age of CEO

The average age of the CEO's is 57.8 years old, with the youngest CEO only 40 years (Mr. Emillo Lozoya Austin, Chairman, & CEO of PEMEX) and the oldest CEO is 84 years old (Mr. Warren Buffett, Chairman, President, & CEO of Berkshire Hathway). Most of the CEO's (80%) age is between 50 to 65 years old with only 8% age below 50 years and 12% of CEO's are above 65 years old.

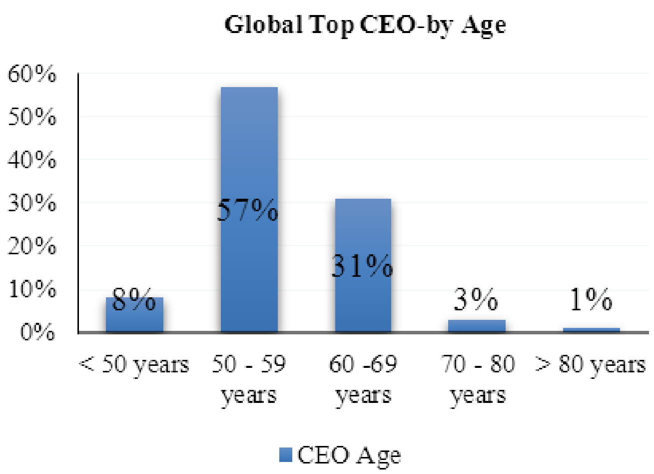

Figure 4. Percentage bifurcation based on age

4.4 Regression Analysis

By performing regression analysis, independent variable assumed the MBA and dependent is revenue of companies per annum. Here we analyze there is no significant relationship between the company's performance and the MBA degree of CEO's. The sig. value is greater than 0.05, which shows no effect of MBA on company's performance.

Table 1. Regression analysis

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.021[a]	.000	-.010	87.76880

Notes. a. Predictors: (Constant), MBA_DBA.

b. Dependent Variable: Revenue_Billion.

Table 2. Analysis of variance

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	310.062	1	310.062	.040	.841[b]
	Residual	731819.454	95	7703.363		
	Total	732129.516	96			

Notes. a. Dependent Variable: Revenue_Billion.

b. Predictors: (Constant), MBA_DBA.

6. Recommendations and Conclusion

In conclusion, there is no strong evidence of a relationship between CEO education and firm performance, while there is weak-and, perhaps, statistically insignificant-evidence that the leadership of a CEO having a MBA degree from a Top 100 companies enables better operating performance. There is no consistent, long-term relationship between CEO's MBA and firm performance.

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