

MBA ENTITLEMENTS: AN EXPLANATORY NOTE

INTRODUCTION

1.1 The Chancellor announced in Budget 2004 a new entitlement for graduates from 50 of the world's top business schools to work in the UK for up to 12 months on completing MBAs¹ (Section 3.92, p. 71). This note outlines the rationale behind the new route, the methodology to be used in identifying the 50 MBA programmes eligible under the scheme and finally lists the qualifying programmes. This list will be reviewed and updated annually by the Treasury, and, once the scheme is launched, graduates from any of the programmes on the list (at the time they submit their application) will be eligible to apply. As set out below, the list is generated through an assessment of economic impacts only, captured through income and employment effects. Prospective students will need to consider a broader range of criteria when weighing up the pros and cons of different MBA programmes, such as quality of facilities. These broader factors are included in independent rankings such as those produced by the financial Times.

RATIONALE

1.2 15% of UK trend economic growth depends on inward migration.² Skilled migrants are particularly productive: foreign born employees with work permits earn on average £42,000 per annum, suggesting this group disproportionately contributes to economic growth and tax payments. There is, therefore, a clear case for encouraging a managed flow of skilled workers into the UK.

1.3 The Highly Skilled Migrant Programme (HSMP) is designed to attract highly skilled people to the UK to seek and take work. Unlike work permit employment, they do not need a job offer in the UK to apply for the scheme. Instead, they score points based on their qualifications, experience, past earnings and their achievements in their chosen field. They also need to show that they can continue their career in the UK, and to meet the requirements of the Immigration Rules, including that they intend to base themselves in the UK and can support themselves and any dependants without recourse to public funds.

1.4 Between the launch of the Highly Skilled Migrant Programme and 30 June 2004, 6,363 initial applications were approved³. These talented individuals could then seek and take up work in the UK, using their skills in areas as diverse as medicine, academia and music. A new entitlement launched on 25 October 2004 for science and engineering graduates from UK institutions allows students in shortage science, maths and engineering subjects to work for a year after graduating from British institutions without the need for a work permit.

1.5 A particular weakness in the UK economy is the quality of management. One in three employers report a skills deficiency amongst their managers. The Masters in

¹ HM Treasury, *Budget 2004*, Section 3.91, p. 71

² HM Treasury, *Trend Growth: Recent Developments and Prospects*, April 2002

³ This refers to initial applications, from both individuals seeking to enter the UK under the HSMP and those already in the UK who want to switch into the HSMP. Once this application is granted, the individual then applies for entry clearance to enter the UK or leave to remain to stay in the UK.

Business Administration remains the most recognised and respected management qualification and graduates from the top 50 universities in the world can expect to earn high salaries reflecting these skills.

1.6 In order to encourage more highly qualified and talented managers into the UK, Budget 2004 announced a new route for MBA graduates to work in the UK up to 12 months after graduating. Most MBA graduates would already qualify through the Highly Skilled Migrants Programme, and the MBA route will be part of this scheme. Graduates from the eligible 50 MBA programmes would be awarded the minimum number of points necessary to qualify under the HSMP, although they would still have to meet the other requirements. This should simplify and speed up the application process for MBA applicants.

Methodology for Assessing 50 Programmes

1.7 There are several independent rankings of MBA schemes used by students and their final orderings can vary substantially.⁴ The rankings are based on a variety of different factors including salaries after graduation, aptitude test requirements for entrants, employment after graduation, alumni recommendations, assessments of facilities, research capabilities and proportion of international students on the programme. Most assessments include a few core elements, such as post-graduation salaries and employment, but the exact mix of elements included and the weights afforded these varies. As a consequence, the schools included in independent rankings are not consistent between rankings.

1.8 Rather than rely on an independent survey, the Government has constructed its own methodology based solely on the factors most important in maximising the economic contribution of migrants. The Government considers these to be:

- Post-graduation salaries, and
- Employment

1.9 Salaries remain the most effective measure of productivity; in well-informed competitive labour markets companies will pay no more than the productive output of the worker. Talented business executives earn commensurately high salaries. While salary is not a perfect reflection of quality, on average students with a higher quality business education will earn more. Thus, the average student salary following business school (three years after is the typical time period used) is a key output in ascertaining quality. We use Financial Times³ data that takes an average of data over the previous three years to avoid large fluctuations arising from exceptional data in particular years. The Government index adjusts average salary by GDP⁴ in the country where the business school is located, reflecting the fact that even accounting for price differentials, executive pay still varies considerably by country.

Employment

1.10 If the productive potential of MBA graduates is to be fully realised, so benefiting the UK economy, then it is important that those MBA graduates find employment quickly. Employment levels for MBA graduates are high, reflecting their high-level skills, but employment rates do vary by business school. To capture variations in

³ The FT MBA Rankings and data can be accessed at: <http://news.ft.com/businesslife/mba>

⁴ OECD GDP Per Capita (PPP adjusted), available at: <http://www.oecd.org/topicstatsportal/>

employment levels, the Government index includes a measure of employment:⁵ the percentage of a business school's graduates employed three months after graduation.

Scoring Methodology

1.11 Instead of just rank ordering every school on each measure, the Treasury index uses an *interval* measure. That is, if two schools are 0.001 apart on any measure in the raw data, the negligible magnitude of this difference is reflected in the score they receive when the data is normalized. For each measure the normalization of scores is undertaken in the following manner.

$$\left(\frac{\text{School's score} - \text{Lowest score}}{\text{Highest score} - \text{Lowest score}} \right) \times 10 = \text{INDEX}$$

1.12 Thus, in each case, we take the particular school's score and subtract the lowest score obtained by any other school from it. We then divide this figure by the range between the highest and lowest scores and multiply by ten. This creates a zero to ten scale where the top school receives a full ten points and the weakest school receives zero points. All other schools receive a score between one and ten and this figure is then used to calculate the final rankings in the following manner.

$$2/3 \times (\text{INCOME INDEX}) + 1/3 \times (\text{EMPLOYMENT INDEX})$$

1.13 Thus the final index is created by weighting the income index by a two-thirds and employment by one-third. The final index, because it is a weighted average of the other indices, also runs from zero to ten. To create rankings from this interval level index we simply rank order the schools by their score on the final index from ten down to zero and give them their ranking accordingly.

UK/non-UK Lists

1.14 The UK is fortunate in having some of the top business schools in the world. Independent lists typically show the UK as having 5 or 6 of the top fifty MBA programmes. Graduates from UK universities, however, have the advantage of already having at least one year of integration into UK society. This confers advantages both in terms of ability to find employment in the UK, but also enables a more rapid transition into the labour market. Those choosing to study in the UK have also already shown a commitment to the UK. For this reason, the 10 UK universities that rank most highly using the methodology above are automatically included in the 50 listed universities.

Learning from Experience

1.15 The methodology used to generate 50 eligible institutions is a new one and it is inevitable that as our experience of the scheme develops changes may be made to the methodology used to generate the top 50 list. The methodology outlined above, however, clearly attempts to base the criteria used against the objectives of the scheme;

⁵ FT and Business Week; Percentage of graduating class that had gained employment within three months.

that is to attract highly productive, individuals into the UK who are likely to find employment. There will inevitably be some disagreement over the weighting of the various criteria, but this is an inexact science and one which in the light of fresh evidence could be adjusted in time. Regardless of changes to the methodology, the list will be revised annually in order to incorporate changes in data on each of the criteria.