

Financial Evaluation of Management Post Graduate Programs in Indian Average Business Schools: A Case of Uttarakhand – India

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Abstract

Management Institutions in India are considered as a placement agency, because the course like M.B.A\ PGDM are considered as a course which would result into a lucrative pay package, fast track career, a respectable job and a lot many things which an achievement oriented student would ever desire. But the course like M.B.A or PGDM from average institutions in India has got a totally different meaning; in terms of cost and return this is the reason for the declining demand of management education in average B-Schools in India. This research is focusing on the financial evaluation of this course on the basis of cost and placement packages offered by the B- institution in Uttarakhand (India).

Key words: Cost, Return, Cash flow, NPV, Pay - Back Period.

1. Introduction

1.1 Uttarakhand an Introduction

Uttarakhand, after bifurcation from Uttar Pradesh, was formed as the 27th state of India on 9th November 2000. It is divided into two broad regions - .Garhwal and Kumaon. The state has 13 districts, 49 sub-divisions, 95 development blocks, 15,638 villages and 86 urban settlements. Uttarakhand is primarily a mountainous state, as the plains constitute only about 10% of its total geographical area. Out of thirteen districts, only Haridwar, Udham Singh Nagar and some parts of Dehradun and Nainital districts are in the plains. The state is part of the central Himalayas and most of the northern area comprises of high ranges and glaciers and the lower reaches are covered by dense forests. Higher, or post-secondary, education has seen major expansion in Uttarakhand during the last few years, especially after the formation of the state. At the time of the formation of the state there were 64 higher education institutions viz., universities, post-graduate and under-graduate colleges, engineering, management education, medical, and dental and ayurvedic colleges. Their number has gone up to about 248 – an increase of 287.5 percent in less than 9 years. By any standard this is a remarkable growth. Predictably, a growth of this magnitude has thrown up formidable problems that need to be addressed on a priority basis.

1.2 Management Institutions in Uttarakhand

The structure of management institution in Uttarakhand is very interesting, if we compare the size and

population of this state with the number of management institutions then we can easily analyze that the management institutions of this state are able to attract the students of other state in good number for this number, the quality of study is a major contributor but some other factors like geographical uniqueness, study environment, nearness of Jammu and Kashmir, institutions centralized in some common cities etc. which are also contributing substantially for increased number of students in these institutions.

There are two high quality management institutions the Department of Management IIT – R and IIM – Kashipur (these two institutions are excluded from this study) in Uttarakhand, apart from these two, eight other universities (out of total 14 universities in the state) providing management educational programs (MBA/PGDM), these include (one central university, two deemed university and five state university)

(Figure: 1)

Dehradun is the topmost center of higher Education in Uttarakhand. The city has the prestigious institutions like the Forest Research Institute, Himalayas Institute of Medical Sciences, and Indian Military Academy etc. As far as the management education is concerned, there are some deemed and state universities as well as some prestigious institutions and this city is central hub for higher education in Uttarakhand. Apart from Dehradun, Mussoorie is the place where Lal Bahadur Shastri National Academy of Administration is placed, whereas Roorkee has the famous Indian Institute of Technology (IIT) renowned worldwide for its quality education and Kashipur is now recognized for IIM.

1.3 Objectives of this study:

- ❖ To analyze the detail structure of cost charged by these institutions.
- ❖ To analyze the return (benefit) of management post graduate course and estimate the pay back period of such investment.

1.3 Data Source & Research Methodology:

This study is based on secondary data which has been collected through the Institute websites and the job portal “naukri.com”. The data collected from Institute websites has been utilized to understand the costs whereas the data collected from Naukri.com is used to analyze the pay packages and the designations that MBA fresher from Uttarakhand are getting in the job market.

This study will be divided into three sections:

- **Section – 01:** This section is analyzing the detail cost structure of management post graduate program in Uttarakhand.
- **Section – 02:** This section is exploring the payback periods of ROI with the by applying NPV method of appraising investment proposal.

1.4 Review of Literature:

Management post graduate degree in India is considered as a passport for the high perk job, this perception leads the cost of program very high in past few years. There is a lot of literature available for estimating the returns from MBA program in Indian top B-School but in case of average B-School there is a . In present scenario management post graduate aspirants are keenly analyzing the cost and return. *Pfeffer & Fong*

(2002) argued that with the commercialization of education the quality of education has declined. The institutes which are running management education, pretend as if they are more concerned with the quality delivery of education, but actually it is not and the institute's focus remains on filling of the seats only. Also, the faculty is not taken care by the management institutes in terms of regular pay scales and work environment which ultimately affects the performance and desired output of any B-School. *Manimala J. Mathew (2006)* reviewed the status of management education in India and conclude that B schools in India are trapped in a cost-quality vicious cycle even though there are few institutions of excellence that are comparable to the best in the class. *Prof Himadri Das (2011)* He suggests a more sound method to calculate the ROI and demonstrates how it is linked to the quality of the B-school's professors. *Tim Westerbeck (2010)*, Highlighted some issue in Indian management education system like Skipping the academic silos phase, Serving locally but train globally, Establishing deep partnership with business all such type of issue can enhance the quality of management education in average B-Schools in India but it leads the cost of the education in these schools also.

All the studies which evaluated MBA/PGDM programs represent the overall Indian B- Schools perspectives especially top B – Schools in India and the prime focus of those study was the evaluation and comparison of placement packages offered by Indian top B – schools. In last few years the enrolment of students in MBA/PGDM seems to be decline. So there is some literature available which highlighted the reasons of such decline, it has been found in this study that there is substantial shortage of literature on the theme of this research.

2. Cost of MBA/ PGDM in Uttarakhand

The cost of MBA/PGDM varies according to the institution attended and the format of study like full time, part time or online, full time residential program are costly than part time MBA program. For most prospective students, the cost of the program is the significant factor when selecting a course. The primary costs are the tuition fees charged by the business school, and secondary costs are hostel charges, mess charges, student exchange program and any other paid optional service provided by the Institute

2.1 Cost Analysis

The nature of expenses in management program can be classified in to two bases one, on the basis of association and other is occurrence. Further the cost which is calculated on the basis of association is again divided in to two heads;

- 2.1.1 Institutional expenditure
- 2.1.2 Personal expenditure

(Figure: 2)

(Figure: 3)

As per this study there is a minor different between these two heads, institutional expenditure cover 55% of total cost and personal expenditure cover 45% (Figure:), one interesting conclusion can drawn with this facts if students are able to control their unnecessary personal expenses, the overall cost of the program can be minimized.

The other criteria of expenses classification is occurrence, means the frequency on which expenses are occurring, this head is important consideration for calculation of return because it directly associated with time value of money. This is again divided it to two heads

2.1.3 Non – Reoccurring Cost

2.1.4 Reoccurring Cost

(Table: 1)

Non – Reoccurring cost which is paid at the time of admission, it occur only once in the entire tenure of the program like fee of securities, registration, lap – top and calculator fee. These costs contribute a significance part of Rs 60 000 – 75 000 in average B- schools in Uttarakhand, this is a significant share of total cost.

The second type of cost is reoccurring cost those expenditure which are occurring in regular or specific time interval, these expenditures again divided in two three category like.

2.1.4.1 Reoccurring Monthly

2.1.4.2 Reoccurring Half Yearly

2.2 Opportunity Cost: It Includes:

2.2.1 **Opportunity cost (Interest (A+B)):** It is the amount that one could have earned while investing in alternate source. The alternate source of investment considered is fixed deposit.

2.2.2 **Opportunity cost (Salary):** It includes the cost of salary one could have earned It is calculated on the basis of opportunities available for the fresh graduates in Delhi/NCR region. The data is collected from a job portal Naukri.com.

3. Estimation of Returns

Like any other investment, one should calculate the possible returns before investing on an MBA degree. In simple terms, the return on investment (ROI) of an MBA can be calculated, different MBAs have different ROIs and returns vary from student to students and institute to institute^[1], Rationally significant investment demands substantial return – an MBA degree is both an investment of time and money. Global statistics indicate that the MBA graduate can expect their earnings to increase by 130% over a three-year period after their completion of an MBA degree^[2]. These statistics are of course subject to many variables, but the fact remains that, almost universally, MBA graduates increase their earning potential as well as their potential for career advancement

3.1 Return from MBA/PGDM in Uttarakhand

Estimating the returns to education is difficult in part but every student want to make sure that the return on his or her investment makes sense and that he/ she will recoup his or her investment in a reasonable time period. While it is generally accepted that more education leads to an increase in wages, an extensive literature attempts to quantify this effect. The difficulty lies in wages from the unobservable personal traits that are correlated with schooling, because schooling is usually completed before entrance into the labor market.

(Table: 2)

In this research the NPV method is applied for calculation of Pay – Back Period (recovery of initial investment). The cash inflow data (taken as a return) is obtained from the average placement packages offered by the companies to the B-School's students in Uttarakhand. The data of further cash inflow (average increment for one to five year) is obtained from the different job portals like Naukri.com and Timesjobs.com. This opportunity cost of the investment is assumed as 7.5% (average risk free return on such type of investment). On calculation it has been found the initial investment of Rs 182707.654 (discounted value of Rs 755866.14 @7.5 % per year) will be recovered in four years two months.

4. Findings and Conclusion

Management education in Uttarakhand is developing as over the years quite a good number of management institutes have come up with innumerable management programs in Uttarakhand to cater to the rising demands of management education in India. The emerging trends and challenges in management education in India especially from average business school are raising cost and declining return, potential students of this course are investing money with the hope of lucrative returns not only to educate, but the result of this research shows that the pay back span is not very convincing. There is some elements of expenses can be controlled which will minimize total cost of the programs.

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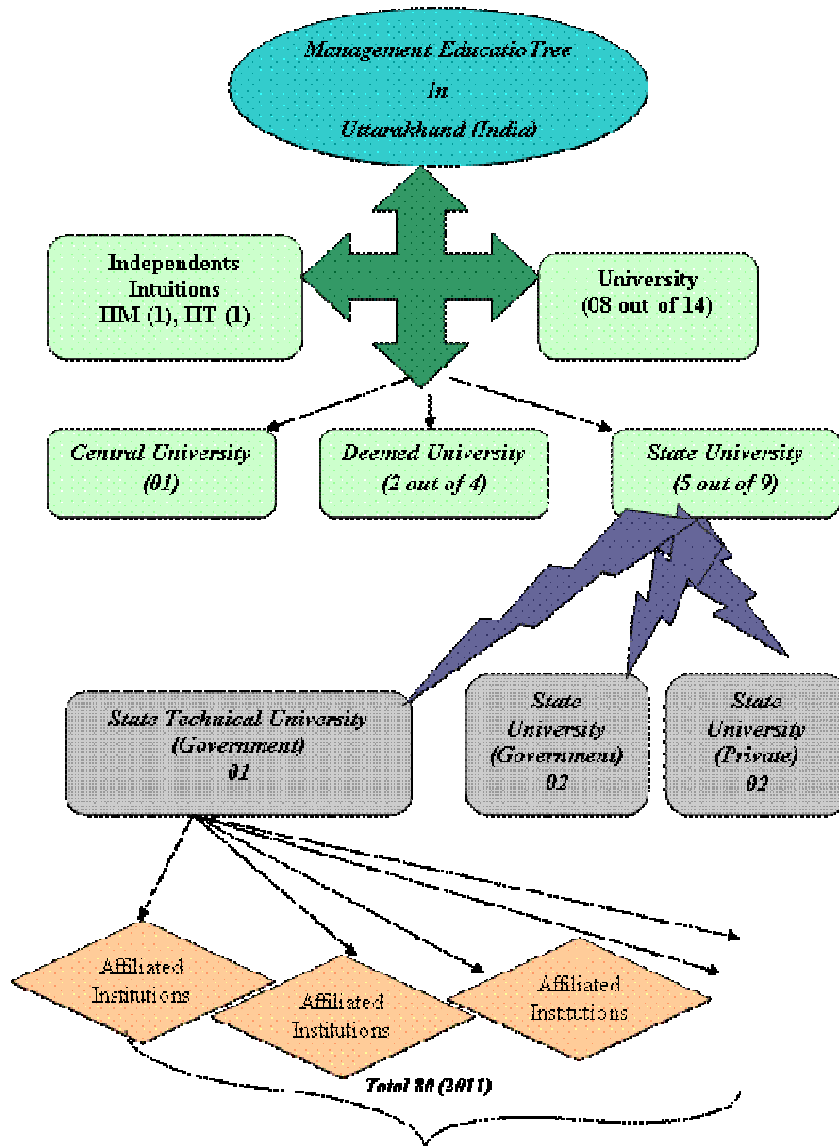
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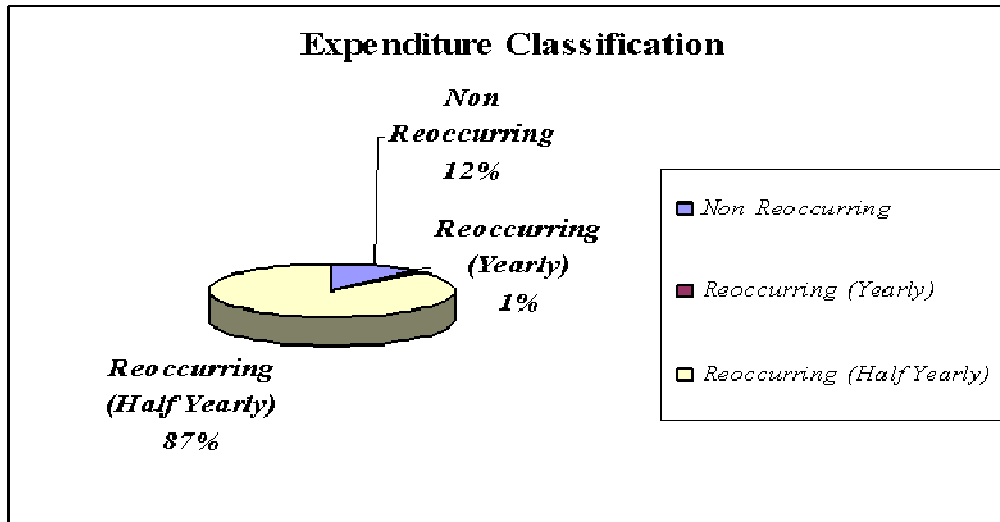
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(Figure – 1)

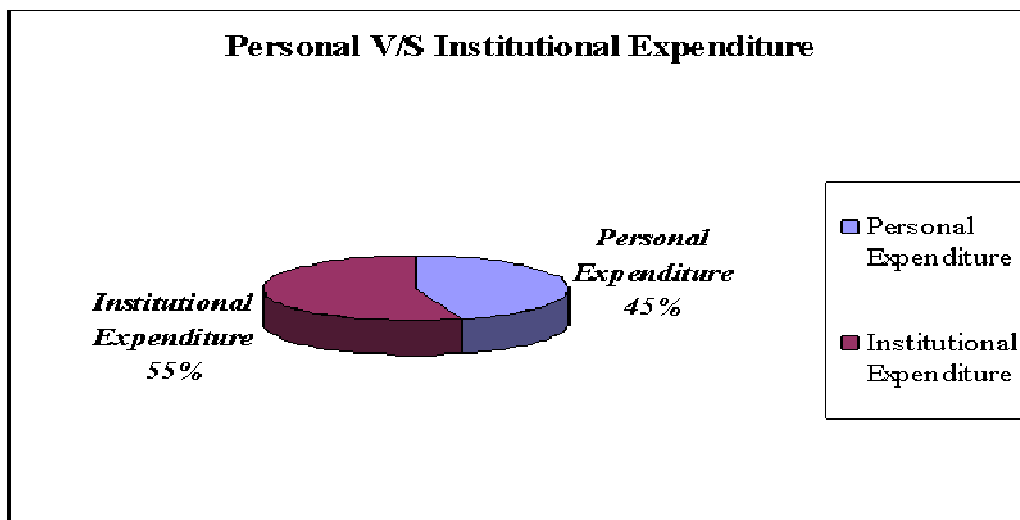
Structure of Management Institutions in Uttrakhand (India)



(Figure: 2)



(Figure: 3)



(Table: 1)
Cost Structure of MBA/PGDM Program

<i>Classification of Expenditures</i>					
Span of Time	Sem 1	Sem 2	Sem 3	Sem 4	Total Amount (Rs)
<i>Institutional Expenditure</i>					
Non Recurring					
✓ Security Fees	5000				
✓ Registration	1000				
✓ Uniform	4500				
Recurring (Half Yearly)					
✓ Tuition Fees	60000	60000	60000	60000	
✓ Sports Fees	500	500	500	500	
✓ Examination Fees	1500	1500	1500	1500	
✓ Books	3500	3500	3500	3500	
✓ Stationary	500	500	500	500	
Recurring (Yearly)					
✓ Library Fees	2500		2500		
Total Program Cost (A)	75000	62000	64500	62000	263500
<i>Personal Expenditure</i>					
Non Recurring					
✚ Laptop	45000				
Recurring (Monthly)					
✚ Room Rent	9000	9000	9000	9000	
✚ Food	15000	15000	15000	15000	
✚ Internet Charges	2400	2400	2400	2400	
✚ Mobile	1800	1800	1800	1800	
✚ Newspaper & Magazines	600	600	600	600	
✚ Entertainment	3000	3000	3000	3000	
✚ Local Transport	3000	3000	3000	3000	
✚ Miscellaneous	3000	3000	3000	3000	
✚ Clothes	1000	1000	1000	1000	
Total Personal Cost (B)	87900	42800	42800	42800	216300
Total Cost (A+B)					
	162900	104800	107300	104800	479800
Opportunity Cost (Interest (A+B))	25351.3	12008.4	8047.5	3858.95	
Opportunity Cost (Salary (Annually))		108000		118800	
Total Cost of MBA					755866.14

(Table: 2)

Calculation of Pay – Back Period without Considering Operating Expenses

Discounted Rate	:	7.5%			
NPV	:	182707.654			
Period (Years)	:	5			
		Cash Flow	Discounted NCF	Cumulative NCF	Discounted Payback Period
Year	0	-755866.1393	-755866.14		N/A
	1	160000	148837.21	-607028.93	N/A
	2	192000	166143.86	-440885.07	N/A
	3	230400	185462.92	-255422.15	N/A
	4	276480	207028.37	-48393.78	N/A
	5	331776	231101.44	182707.65	4.2
	6	398131	257973.70	440681.35	

^[1] Times Of India Mumbai; Date: Apr 18 2005 Section: Education Times (Cover Story)

^[2] Financial Times Survey – September 6, 2004

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