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Educational Leave of Absence: Retaining High-Potential Employees Pursuing MBA Degrees

Abstract

[Excerpt] Surveys show that 78% of companies include tuition reimbursement as a part of their benefits offerings compared to 0% who offer to pay-off existing student loans. These statistics alone shed light on why a growing number of workers are deciding to pursue an educational leave of absence through their company when pursuing their education. Why would an employee leave their work if they know their future employer will not pay off their student loan debt, while at the same time their sponsoring company will cover some of the costs, have a position waiting for them, and continue to provide health coverage while they are in school full-time? Yet despite this continued relationship with their organization, employees often leave the organization upon receiving their MBA, resulting in losses of talent and money for the company. This practice is especially prevalent in employees who receive only partial tuition assistance from their employer while pursuing their MBA—meaning they still have substantial student loan debt to pay off following graduation.

Keywords

HR Review, Human Resources, Human Capital, Benefits, Education, Turnover, Retention, Tuition Assistance, MBA

Comments

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CORNELL HR REVIEW

EDUCATIONAL LEAVE OF ABSENCE: RETAINING HIGH-POTENTIAL EMPLOYEES PURSUING MBA DEGREES

Ashley Myers and Sarah Edwards

Surveys show that 78% of companies include tuition reimbursement as a part of their benefits offerings compared to 0% who offer to pay-off existing student loans.¹ These statistics alone shed light on why a growing number of workers are deciding to pursue an educational leave of absence through their company when pursuing their education. Why would an employee leave their work if they know their future employer will not pay off their student loan debt, while at the same time their sponsoring company will cover some of the costs, have a position waiting for them, and continue to provide health coverage while they are in school full-time? Yet despite this continued relationship with their organization, employees often leave the organization upon receiving their MBA, resulting in losses of talent and money for the company. This practice is especially prevalent in employees who receive only partial tuition assistance from their employer while pursuing their MBA—meaning they still have substantial student loan debt to pay off following graduation.

Management is becoming more and more aware of the growing problem of employees utilizing educational leave of absence programs purely as a way of making themselves more marketable for switching jobs. What is surprising, however, is that few companies seem to be doing anything to try and quell this migration of their high-potential employees (who now have a large amount invested in them) out of their company.

It is difficult to grasp how many employer-sponsored MBA students return to their sponsor company because only 26% of companies actually track the retention rates of their assistance programs.² This begs the question—how much money do companies waste on tuition reimbursement by not monitoring retention rates? While offering tuition reimbursement as a part of an employee's total compensation package is a worthwhile pursuit, if companies are not retaining these employees, the policy implementation should be reevaluated.

The purpose of this article is to two-fold. First, it describes why employees pursuing an MBA degree during their educational leave of absence are so susceptible to switching companies after graduating. Second, this article discusses strategies companies can use to increase retention rates, thereby raising their return on investment for tuition assistance programs.

Why MBA Retention is Important

It is Expensive to Replace Them

The replacement cost per hire of an MBA-caliber employee can run anywhere from \$500 to \$100,000 once you factor in costs like recruitment firms, interviewer time, travel costs, onboarding, and training.³ Further, it is difficult to quantify the intangible costs of losing these quality employees, such as the loss of skill and decreased productivity in the interim before the new employee is trained and working.

They Have Other Options

Employees participating in an educational leave of absence to obtain their MBAs are particularly prone to leave their sponsoring companies because the skills they gain are more general and easily adaptable to new situations and companies.⁴ In fact, studies have shown that those who earn degrees while at a company have higher intentions to turnover than those not earning degrees.⁵ One sobering statistic from a prominent MBA program shows that only 5% of students sourced their job from their previous employer, showing that MBA degrees are so versatile and in-demand that they can easily pursue opportunities elsewhere.⁶

Ways to Increase Retention

Organizational Alignment

When tuition assistance programs are not aligned with overall organizational strategy, retention rates decrease as much as 50%.² However, as of 2008, only 5% of companies who provided tuition assistance programs were tracking their programs' return on investment.⁷ Of those companies, a Tuition Assistance Maturity Model has been created (Figure 1).

Caterpillar Corporation has successfully linked their career development strategies with their tuition assistance program. Employees at Caterpillar have annual meetings with their supervisors to discuss promotion potential and skill development needs. These meetings often lead to the employee *and* employer deciding if further training, such as an MBA, is needed.

Employee Contracts

Requiring employees to enter into a call-back agreement can dramatically decrease the costs to employers of engaging in tuition assistance programs. In these cases employees promise to return to the company for a minimum amount of time following the completion of their degree in return for the tuition assistance they are receiving. If they decide to break with that contract and leave earlier they are responsible for paying the employer back. Currently, more than 43% of companies are not requiring their employees receiving tuition assistance to reimburse the company if they leave. On the other hand, 30% of companies require employees to pay back tuition costs if they leave the company

within one year of graduation.⁸ The average length of these contracts is 15 months post-reimbursement.⁹ However, it should be noted that some experts say these contracts are difficult to enforce.¹⁰

Tuition Reimbursement

Although there were corporate concerns that tuition reimbursement is a large factor in MBA employee turnover, this practice does not seem prevalent. A recent benchmark survey actually showed that 0% of companies offer payback of existing student loans as a benefit of an MBA compensation package (Figure 2).¹ In rare instances when tuition assistance does occur, it almost exclusively exists in consulting firms.³ For example, the Wharton School of Business does acknowledge that second year tuition reimbursement is sometimes offered to summer interns who accept an offer early on.¹¹

“Re” sign-on Bonus

One opportunity that is not well documented but may offer a competitive advantage in retaining MBAs on educational leave of absence is the use of a “re” sign-on bonus. Sign-on bonuses are used frequently as MBA recruitment tools, being offered to approximately 75% of students accepting job offers.¹ The median sign-on bonus for MBAs attending Wharton, Harvard, Chicago-Booth, Stanford, Kellogg, and Ross were all \$20,000 for the class of 2011.¹²⁻¹⁶ That represents approximately a quarter of the tuition for attending any of those schools. Although these funds are not directly labeled as “tuition assistance”, it can be assumed that some of this money likely goes toward paying off student loans. Therefore, in lieu of the large replacement costs (\$500 - \$100,000) noted above, a company can consider paying a sort of “re” sign-on bonus to offset sign-on bonuses from competitors.

Promotion

A 2004 study found that turnover increases after employees earn graduate degrees; however, this effect is somewhat mitigated if the employee also receives a promotion upon graduation. This is due not only to the increased salary that goes along with promotions, but also because returning employees want to feel like their new skills are being utilized.¹⁷

Frequent Communication

Communication is critical to MBA retention, as one employee explains: "The day I finished my MBA, I left the company. My manager knew I was enrolled...but nobody ever came to me and said, 'when you finish your MBA, here's what we're going to do.'... They spent \$20,000 on me, and there was no management of that \$20,000 at all."¹⁸ Communication with employees on educational leave of absence should be regarded as highly as it is with external MBA hires. Companies like General Mills are lauded as best practices with second-round MBA interviews because they are thoughtful and high-

touch, and this level of engagement should carry over to leave of absence employees to see similar results.³

The quality of communication is also a key factor, as employee job choices are most often driven by growth potential, job function, and job content.⁶ By integrating those factors into conversations, MBA employees can feel ensured that their needs are being met at their current organizations.

Relationships with Schools

Some companies develop strategic partnerships, or alliances, with schools. These partnerships can take many different forms, but, in general, companies report that these relationships benefit their tuition assistance programs.² The director of the Johnson Business School at Cornell recommends having a strong relationship with 15 to 20 universities where sponsorships are available.⁸

FIGURE 1

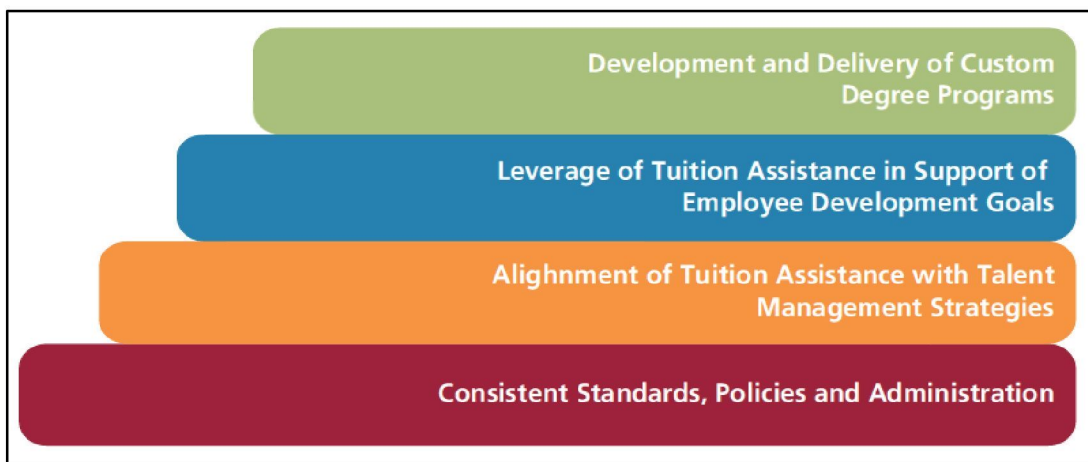


FIGURE 2

Figure 13 Benefits	
Benefit	% of Employers That Offer
Annual salary increases	100.0%
Dental insurance	100.0
Life insurance	100.0
Medical insurance	100.0
Employee assistance/counseling program	95.3
401(k) retirement plan	95.3
Casual dress policy	92.9
Family friendly benefits	90.7
Annual bonus (based on performance)	86.0
Relocation assistance	86.0
Tuition reimbursement	78.6
More than two weeks vacation	74.4
Flextime	72.1
Planned social activities	67.4
Frequent performance reviews (more than 1 per year)	64.3
Telecommuting	52.4
On-site fitness center	50.0
Bonus/commission plans	48.8
Stock options	45.2
Pension plan	42.9
Day care facilities	22.5
Company car	9.3
Payback of existing student loans	0.0

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