

ANNUAL 2012



INNOVATION



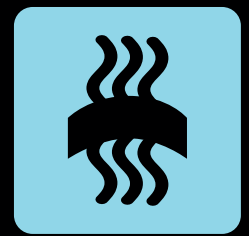
INTELLECTUAL AMBITION



INTERNATIONALIZATION



INCLUSION



INTEGRATION

H A R V A R D | B U S I N E S S | S C H O O L



Raphael
Anderson

Ahmed
Makani

Erasmus
Nuzzi

Mimi
Hanley

Nicholas
Freund

Serlania
Bendi



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innovation

in our educational programs



intellectual ambition

for widespread impact



internationalization

to build global knowledge



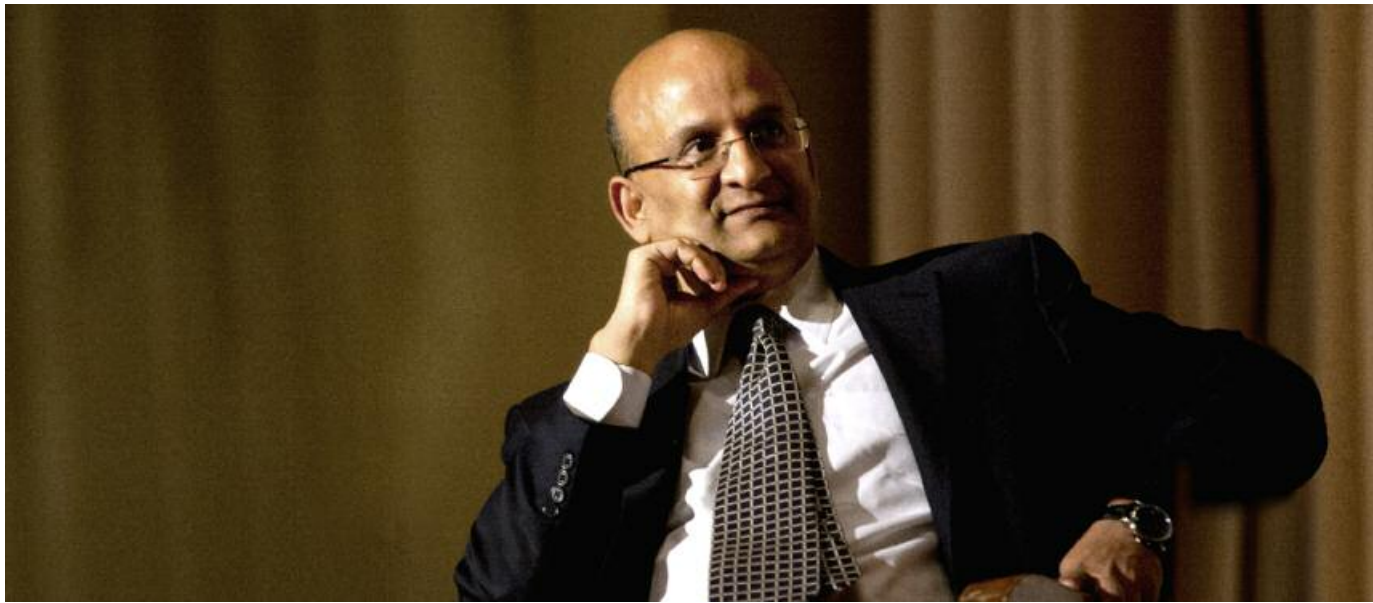
inclusion

so all can do their best work in support of the mission



integration

across Harvard to foster innovation and entrepreneurship



FROM THE DEAN

Dear Friends,

It has been an exciting year at Harvard Business School. Building on our strategic priorities, in fall 2011 we moved into execution mode on a range of new initiatives. At the same time, we continued to invest in the activities and infrastructure that have defined HBS since its founding, and that distinguish it among business schools.

In the MBA Program, we created a new course in the Required Curriculum (the first in a decade) and a number of courses in the Elective Curriculum based on the field method—an approach we think represents a powerful complement to the case method, and one that will help students develop the knowing, doing, and being skills and awareness required of leaders in today's challenging world. We also constructed in record time 10 flexible classrooms to accommodate the teamwork, simulations, and other exercises these courses necessitated, opening the doors quite literally as the paint was drying.

To bring focus to a topic of global importance, we launched the U.S. Competitive-

ness Project, engaging faculty members from across disciplines both within and outside the School. On issues ranging from K–12 education to U.S. trade policy, faculty members explored—and, importantly, offered solutions to—barriers to competitiveness. For the first time, we conducted an alumni-wide survey, tapping into the unique and tremendous experience of our graduates. And we convened academics, practitioners, and policymakers to zero in on actionable recommendations.

In Batten Hall, we opened the Harvard Innovation Lab, or i-lab, a new University-wide facility that combines space and resources to support student innovation and entrepreneurship. Although the official dedication didn't happen until November, we were delighted to see literally thousands of visitors (more than half from parts of Harvard other than HBS) even in the early fall months; by spring, a robust slate of programs had been developed and a steady stream of students was coming through the doors.

On the other end of campus, we broke ground on Tata Hall, a new state-of-the-art executive education facility. Scheduled for completion in December 2013, the building will provide much-needed living and classroom space for our flagship Advanced Management Program and other program offerings.

In the pages that follow you will read about these initiatives and more, and a discussion of the economic model and the resources that enable them. We are fortunate that alumni generosity enables so much of what we do—funding research, assisting students with financial need, and enabling innovation. I am deeply grateful to all of you for your support of this wonderful institution.

NITIN NOHRIA
DEAN OF THE FACULTY

INNOVATION



MBA PROGRAM
FIELD'S FIRST YEAR

DOCTORAL PROGRAMS
INCREASING IMPACT
BRINGING YOUNG ALUMNI BACK TO CAMPUS

EXECUTIVE EDUCATION
COLLABORATION FOR BLENDED LEARNING
IMMERSING ALUMNI IN EMERGING MARKETS

MBA PROGRAM **FIELD'S FIRST YEAR**

In 2011–2012 the MBA Program launched FIELD—Field Immersion Experiences for Leadership Development—a yearlong course in the Required Curriculum that provides students immersive, field-based, action-oriented learning experiences while working in small teams.

In FIELD 1, the first of the course's three modules, entering MBA students developed leadership intelligence through simulations and exercises, peer feedback, and personal reflection. In FIELD 2, students focused on developing global intelligence, working in groups of six to develop a product or service concept for a real company in an emerging market. This module culminated in a week-long immersion during January Term, when the groups traveled to work directly with Global Partner organizations and their customers, and then to present completed proposals.

FIELD 3: Integration

During the spring term, in just over 100 days, student teams designed and launched 150 microbusinesses. Each team pitched its idea to other students, took part in a custom-developed market simulation designed to value each company in a companion section, and refined its ideas until Launch Day. Teams with viable business ideas had to generate arm's-length revenue and advanced to IPO Day, while the others moved to the "failed business track" and analyzed why they had not succeeded. The IPO judges selected the top team from each section in industries ranging from business services to entertainment, retail, and social media. The overall winner was IvyKids (later renamed Tiggly), an iPad application that helps children learn by interacting with physical objects.

FIELD IMPACT

"Students report that FIELD is a powerful complement to their other RC courses. They are taking the skills they have learned and tools they have mastered across the first year and applying them in FIELD, and then vice versa, so that we can see the impact throughout the RC."

YOUNGME MOON

Senior Associate Dean
Chair, MBA Program



Supporting FIELD

From immunization clinics for FIELD 2 to FRED—the new Field Revenue and Expense Details reporting tool—for FIELD 3, the new course demanded attention to myriad details and the development of new skills and capabilities at the School. The market simulations in FIELD 3 required robust technology to handle 10 markets (sections), each with 15 stocks (team businesses) and 90 traders (students), all trading at once. To meet this need, HBS built the Financial Market Simulator (FIMSim), drawing on a tool Professor Joshua Coval had been using in an elective class for several years.

FIELD Operations: Global Scale-up

Sending the entire first-year MBA class around the world to develop global intelligence skills in FIELD 2 required a massive scale-up effort by the newly created MBA Global Experience Office. Staff built on their experience with IXPs in conducting city-by-city health and safety assessments, arranging travel and lodging with an array of providers, and training more than 35 staff who volunteered to serve as global program managers to handle in-country logistics during the January Term immersion.

Such services were only one aspect of the project. Working in collaboration with the Career & Professional Development Office and FIELD 2 faculty, the Global Experience Office identified potential Global Partner organizations and worked with these companies to scope student projects for faculty review. In all, the process generated 152 distinct projects with 140 Global Partners in 10 countries. (In addition, a few students who were constrained by special circumstances worked with U.S. companies.)

Field-based Learning in the EC

Field-based learning opportunities continue through the Elective Curriculum, with approximately 20 field courses across six academic units. One of these is Impact Investing, taught by Kash Rangan, Michael Chu, and Shawn Cole. In this course, the majority of student time is devoted to team-based project work outside the classroom. Under faculty supervision, teams work directly with client organizations, either impact investing organizations or social enterprises within the portfolio of an impact investor, including at least one field visit. Each team presents its results to its client partner and to its faculty advisor. Classroom meetings occur up to 10 times throughout the semester to discuss issues in the project cycle and support the teams' work. Students in this course have undertaken engagements including the assessment of an impact measurement system for a global microfinance portfolio and the development of a maternal care franchise portfolio in Africa.

DOCTORAL PROGRAMS

INCREASING IMPACT



Under the leadership of Professor Kathleen McGinn, the newly appointed faculty chair, the Doctoral Programs undertook a comprehensive review between fall 2011 and spring 2012. The internal review committee surveyed HBS faculty, students, alumni, employers of alumni, and Harvard graduate education officials to determine how the programs could be improved. The findings led to two streams of change.

Driving Impact on Scholarship and Practice

One set of program changes is directed at enhancing the rigor and relevance of doctoral students' academic preparation and research and heightening their training in teaching theory and practice. A key innovation is Business Education for Scholars and Teachers (BEST), a comprehensive sequence of immersion courses to be taught during three consecutive January Terms. The first two courses will focus on the practice of business and on developing research directions that are valuable to practice as well as to scholarship. The third course will train students in teaching excellence and will give them the opportunity and support to design a course that they will likely teach in a first faculty appointment.

Fostering a Community of Scholars

The review committee identified a number of ways to deepen the engagement between students and faculty and strengthen mentorship. These include seminars, social events, an Intranet-based collaborative research hub, and the proximity of student and faculty advisor office space. Additionally, student interaction will be improved by a single early-August start date for all programs beginning with the 2013–2014 academic year.

DOCTORAL PROGRAMS

BRINGING YOUNG ALUMNI BACK TO CAMPUS



Young Alumni Research Day expands both learning and community-building opportunities by bringing doctoral graduates who are between two and eight years into their careers back to campus to present their research. These returning alumni can provide current doctoral students—some of whom may have overlapped with them at HBS—with valuable insights not only on research matters, but course development and tenure review preparation as well.

Young Alumni Participants, 2012:

Marco Bertini

DBA in Marketing, 2006
London Business School

Craig Chapman

DBA in Accounting & Management, 2008
Kellogg School of Management
Northwestern University

Saikat Chaudhuri

DBA in Technology & Operations Management, 2004
The Wharton School
University of Pennsylvania

Prithwiraj Choudhury

DBA in Strategy, 2010
The Wharton School
University of Pennsylvania

Amanda Cowen

DBA in Management, 2006
McIntire School of Commerce
University of Virginia

Ioannis Ioannou

Ph.D. in Business Economics, 2009
London Business School

Robin Lee

Ph.D. in Business Economics, 2008
Stern School of Business
New York University

Ingrid Nembhard

Ph.D. in Health Policy (Management), 2007
Yale School of Public Health & Yale School of Management

Todd Rogers

Ph.D. in Organizational Behavior, 2008
Harvard Kennedy School

EXECUTIVE EDUCATION

COLLABORATION FOR BLENDED LEARNING



When the Danish National Advanced Technology Foundation (DNATF) sought out HBS to help its project managers develop a more robust business perspective in late 2011, faculty and staff from Executive Education and Harvard Business Publishing worked rapidly and experimentally to develop a novel approach to program delivery.

“In assessing DNATF’s needs, we saw that working independently within our two groups would not be the best approach,” says faculty chair Willy Shih. “Instead we acted as a single team so that we could be more flexible and responsive, and we were able to marshal the School’s unique strengths for deeper impact. This ability is a distinct advantage for HBS, and one we want to find more opportunities to leverage.”

The learning model seamlessly blended virtual and face-to-face curriculum elements. In designing the curriculum, the team analyzed which topics could most readily be taught in a virtual environment, and which—such as negotiation—would benefit most from direct personal contact. Because DNATF’s project managers work autonomously, it was critical to bring the 60 participants together for a one-day launch in Denmark that included the formation of learning teams. Then, over the next nine months, the participants completed a virtual module, a weeklong residential module at HBS, and three more virtual modules. This blended approach enabled the program to cover more content and take best advantage of two complementary learning modes.

The program utilized Harvard Business Publishing’s powerful Leadership Direct platform. As a result, the virtual modules closely mirrored the School’s participant-centered learning, with live lectures, case discussions, simulations, and study group presentations conducted in real time. A single moderator worked with participants throughout the program, helping them synthesize and apply learning. DNATF leadership cited the blended approach as the best of two worlds, and the participants were enthusiastic and engaged throughout the program.

EXECUTIVE EDUCATION

IMMERSING ALUMNI IN EMERGING MARKETS

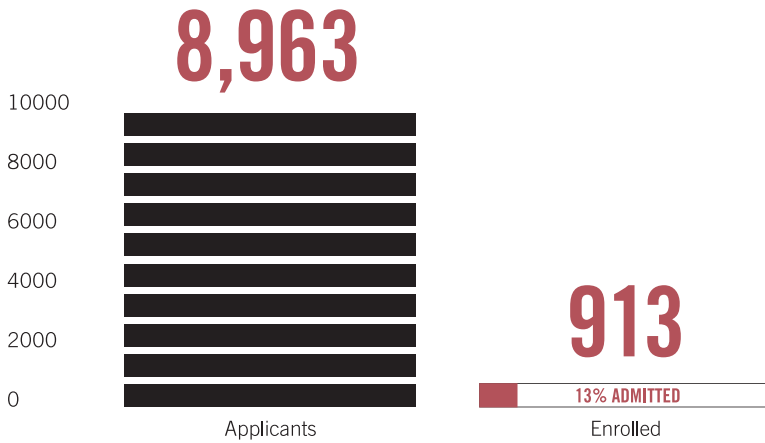


Both the Advanced Management Program (AMP) and the Owner/President Management Program (OPM) now sponsor biennial immersion events that introduce alumni to emerging global markets and new course material, utilizing program faculty and the School’s global research centers and classrooms. Bringing together alumni from different years and decades also leverages the power of the AMP/OPM experience, as these diverse participants bond to form a learning group.

In February 2012, AMP inaugurated an HBS-style classroom in Mumbai with four days of classes, small group discussions and other opportunities for networking, and site visits. The 50 alumni participants, 15 of whom were from India, spanned 20 years of AMP. OPM held its first alumni immersion program in Shanghai in June 2011, with nearly 80 participants ranging from the most recent class back to 1989 and representing 25 countries. The program followed a similar format to that of AMP, with the addition of a field exercise, conducted in small groups, to probe the outlook and habits of the Chinese consumer. Both AMP and OPM are planning their next alumni immersion events, with OPM’s confirmed for Brazil in 2013.

MBA PROGRAM UPDATE

CLASS OF 2014



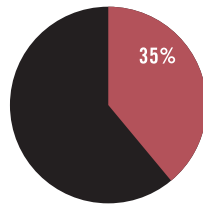
STUDENT DEMOGRAPHICS



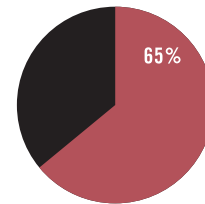
MOST FREQUENTLY REPORTED YEARS OF WORK EXPERIENCE



INTERNATIONAL CASES IN REQUIRED CURRICULUM



STUDENTS RECEIVING FINANCIAL AID



UNDERGRADUATE MAJORS

24% Business

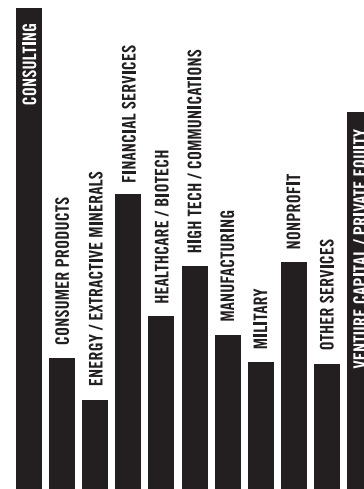
34% Engineering / Natural Sciences / Technical

41% Humanities / Social Sciences

UNDERGRADUATE INSTITUTIONS REPRESENTED



PRE-MBA INDUSTRIES



DOCTORAL PROGRAMS

UPDATE

WYSS AWARDS

FOR EXCELLENCE IN DOCTORAL RESEARCH

Ryan W. Buell

DBA, Technology & Operations Management

Dissertation:

"The Experience of Production: Essays on Customers in Service Operations 1) Are Self-Service Customers Satisfied or Stuck? 2) The Labor Illusion: How Operational Transparency Increases Perceived Value. 3) How Do Customers Respond to Service Quality Competition?"

Now on the faculty of Harvard Business School

Zoë Chance

DBA, Marketing

Dissertation:

"Live Long and Prosper: Ironic Effects of Behavior on Perceptions of Personal Resources"

Now a Post-Doctoral Fellow at Yale School of Management

András Tilcsik

Ph.D., Organizational Behavior

Dissertation:

"Remembrance of Things Past: Individual Imprinting in Organizations"

Now on the faculty of the Rotman School of Management, University of Toronto

Chia-Jung Tsay

Ph.D., Organizational Behavior

Dissertation:

"The Impact of Visual Cues on Judgment and Perceptions of Performance"

Now on the faculty of University College London

Named in honor of Hansjörg Wyss (MBA '65)

MARTIN AWARDS

FOR EXCELLENCE IN BUSINESS ECONOMICS

Jacob Dov Leshno

Ph.D., Business Economics

Dissertation:

"Essays in Market Design 1) Dynamic Matching in Overloaded Systems 2) A Supply and Demand Framework for Two-Sided Matching Markets 3) Will an Increase In The Minimum Wage Improve Training?"

Now a Post-Doctoral Fellow at Microsoft Research New England, and will be on the faculty of Columbia Business School in 2013

Established by Roger Martin (MBA '81) in memory of his mentor, HBS professor John Lintner

DEAN'S AWARD

The Dean's Award is presented annually to students for outstanding contributions to the HBS community.

Ryan W. Buell

DBA, Technology & Operations Management

TOP FACULTY MENTORS

For the fifth year, DBA and Ph.D. candidates recognized one senior and one junior faculty member who fostered their professional and personal development with the Doctoral Awards for Excellence in Mentoring.

The senior faculty award went to **Dennis Yao** and the junior faculty award to **Michael Toffel**.

ADMISSIONS, FY12

25 INCOMING STUDENTS



868 APPLICATIONS

TOTAL ENROLLMENT

137

STUDENT DEMOGRAPHICS



% Women



% International

PLACED AT TOP 30 BUSINESS SCHOOLS, 2012

57%

INTELLECTUAL AMBITION



FACULTY
ADDRESSING U.S. COMPETITIVENESS

RESEARCH
FOCUS ON BUSINESS HISTORY

FACULTY ADDRESSING U.S. COMPETITIVENESS

“Our ambition at HBS is to engage deeply with the most important questions facing society, and one of those questions concerns the future competitiveness of the United States as a business location and its influence on the rest of the world.” With these words, Dean Nitin Nohria announced the launch of the U.S. Competitiveness Project in December 2011.

The Project is a comprehensive, multiyear effort that harnesses the research of HBS faculty and the experience of faculty and alumni. The goal is to generate ideas and actions that will improve the nation’s competitiveness, defined as the extent to which U.S. firms are able to compete successfully in the global economy while supporting high and rising living standards for Americans.

With a faculty team of nearly a dozen, including co-chairs Michael Porter and Jan Rivkin, the Project contends that a series of long-term, structural issues is challenging the nation’s ability to compete, and that business must be a leader in developing solutions. The Project has analyzed the results of an in-depth survey of the opinions and experiences of 10,000 HBS alumni who live and conduct business around the world. The respondents saw the underlying American business environment as strong in critical areas, yet not keeping pace with other economies, especially emerging ones. They cited as weaknesses the tax code, political system, K-12 education system, macro-economic policies, legal framework, regulations, infrastructure, and workforce skills.

The March 2012 issue of *Harvard Business Review* was devoted to competitiveness, with articles including “The Looming Challenge to U.S. Competitiveness,” co-authored by Porter and Rivkin; “The Incentive Bubble,” by David Moss; and “Does America Really Need Manufacturing?,” by Gary Pisano and Willy Shih. The Project has also convened leaders in a series of events around the nation (see sidebar), and it hosts an ongoing digital forum that attracts thoughtful posts by HBS faculty, as well as the School’s alumni and other business leaders.

PATHS FORWARD

To develop actionable steps toward greater U.S. competitiveness, HBS is sponsoring the Paths Forward event series to bring together leaders in economic centers across the country. The inaugural event took place in New York City in March 2012, with more than 600 participants from academia, policymaking, technology, health care, manufacturing, labor, and the non-profit sector. In June, a second event focused on business and government in Washington, D.C., with more than 400 participants. Additional events were scheduled for Charlotte, the San Francisco Bay Area, and Chicago.





RESEARCH

FOCUS ON BUSINESS HISTORY



HBS launched the Business History Initiative in December 2011 to integrate renowned activities in this important area of scholarship and teaching and to propel the future development of the field. Before the end of the fiscal year, the Initiative had sponsored two conferences and launched an ambitious oral history program.

One conference, *Natural Resources and Government-Business Relations: Tin in the Global Economy*, examined the role of the versatile metal in the globalization of the world economy after 1850. The other was devoted to innovation in the teaching of business history. This conference collected nearly 200 syllabi and published them online in a guide to business history courses worldwide. HBS is also seeking to amass data for writing the business history of the future through the *Emerging Markets Oral History* project. Initiated to document the progress of business in the developing world, where few government and corporate archives exist, the project will capture the first-person stories of the entrepreneurs behind significant enterprises over the last four decades.

The Initiative builds on a long tradition at HBS, which established the first endowed professorship in business history in 1927 and pioneered its teaching with *The Coming of Managerial Capitalism* course. In 1954, HBS began publishing the *Business History Review*, which has its roots in a Baker Library publication started in 1926, making it the first academic journal in the field. The *Review* is co-edited by Geoffrey Jones, the Initiative's faculty chair, and Walter Friedman, its director.

NEW FACULTY

SIX NEW TENURE-TRACK PROFESSORS JOINED HARVARD BUSINESS SCHOOL IN 2012.



ROW 1

Ryan W. Buell
Technology & Operations Management

Doug J. Chung
Marketing

Daniel Malter
Strategy

ROW 2

Tatiana Sandino
Accounting & Management

Pian Shu
Technology & Operations Management

Charles C.Y. Wang
Accounting & Management

FACULTY UPDATE

FACULTY (FULL-TIME EQUIVALENT)



% Women



% Born outside U.S.

232

BOOKS



TEACHING MATERIALS



640

Total

249

FIELD cases

391

Additional course development materials

HBS WORKING KNOWLEDGE



Unique visitors

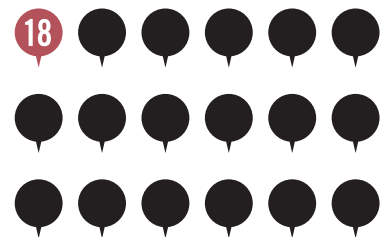


Subscribers

INVESTMENT IN RESEARCH

\$109m

RESEARCH CONFERENCES



Attendees **1,100**

HBS CASES SOLD

8.7m

RESEARCH ARTICLES

184

WORKING PAPERS

111

INTERNATIONALIZATION



FACULTY
IMMERSION IN THE MIDDLE EAST

RESEARCH
GLOBAL RESEARCH FELLOWS

FACULTY **IMMERSION IN THE MIDDLE EAST**

HBS continued its initiative to provide small groups of faculty with in-depth learning experiences in critical areas of the world with a week-long immersion trip to Israel in January 2012. Led by faculty members Arthur Segel and Elie Ofek, the participants included eight HBS faculty members and Dean Nitin Nohria, together with the deans of Harvard's schools of law, education, and design and other guests from across the University.

The purpose of the trip was to understand entrepreneurship in Israel, which has more companies listed on the NASDAQ than any country except the United States—despite its small size, limited natural resources, focus on security, and high level of diversity. The central question was how Israel generates so many startups and attracts so much venture capital and multinational research and development. The search for answers took the group to meetings with business leaders, researchers, the Israeli Defense Forces, the Supreme Court, and President Shimon Peres (AMP 20, 1951). Participants identified contributing factors in Israel's cultural affinity for education, and in the leadership and problem-solving skills that military service inculcates in its citizens.

The trip also examined the current business and economic landscape in the Palestinian territories and the opportunities for bilateral economic, political, and social progress. Discussions are under way about a potential case study on Rawabi, the first planned city in the Palestinian West Bank, the largest private foreign investment in that area.

In June 2012, HBS sponsored its second immersion in China, led by Warren McFarlan and including 11 faculty members.



RESEARCH

GLOBAL RESEARCH FELLOWS



Global Research Fellowships provide opportunities for small numbers of faculty members to pursue in-depth research or course development outside the United States over a semester or a year. Global Research Fellows complete a substantial project, such as an article or a book chapter, and share their findings and research experience when they return to campus.

Recognizing the time and infrastructure required for an international research trip of this kind, HBS supports Global Research Fellows with language services; travel, housing, and related expenses for the fellow and his or her family; and periodic returns to the School during the research period.

Global Research Fellow Srikant Datar traveled the world extending the research from his 2010 book co-authored with David Garvin and Patrick Cullen, *Rethinking the MBA: Business Education at a Crossroads*, and searching out innovative thinkers, techniques, and organizations for his new course, Design Thinking and Innovation. For four months, Datar was based in India, which was also his jumping-off point for Asia, Africa, and Australia. During the rest of his 2011–2012 sabbatical, he spent time in Europe and the Americas. Ultimately he completed his course development at HBS, and the course debuted in the fall of 2012 at the Harvard i-lab.

The other two 2012 Global Research Fellows each spent several months in China. Christopher Marquis investigated corporation-society relations and sustainability, and Forest Reinhardt deepened his exposure to Asian and Pacific natural resource and environmental issues.

SUPPORTING FACULTY'S GLOBAL RESEARCH

HBS Knowledge and Library Services (KLS) is innovating on several fronts to provide faculty with information for global research both on the road and on campus. A case in point is the development of resources to support the 2012 faculty immersion in China. A nine-person KLS team evaluated and supplied information via a custom website to provide participants with business and industry context as well as specific information about companies and individuals.

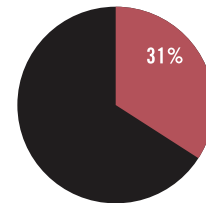
To support on-campus research, KLS is building relationships around the world to make unique business data available to HBS faculty and students—for example, information generated by stock exchanges and chambers of commerce or archival texts. KLS has been concentrating on the priority areas of China, India, and Latin America and began work on Turkey in 2012.

HARVARD BUSINESS PUBLISHING UPDATE

CASES SOLD

10,602,681

NON-U.S. REVENUE



BOOKS



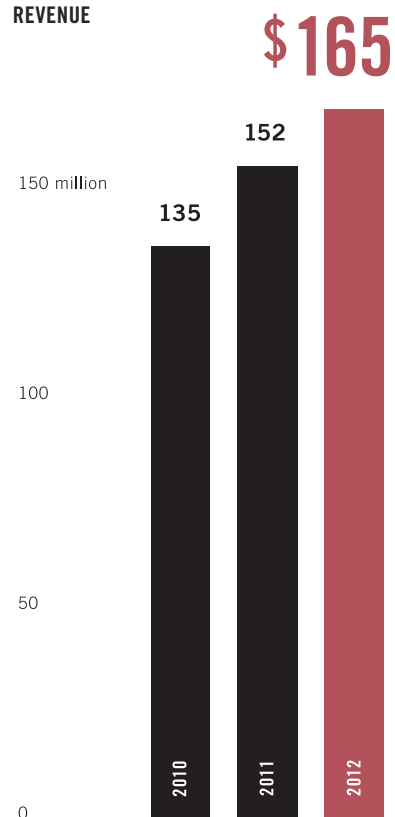
HARVARD BUSINESS REVIEW

256,183 Circulation

82,473 iPad app downloads

3,354,679 Reprints sold

REVENUE

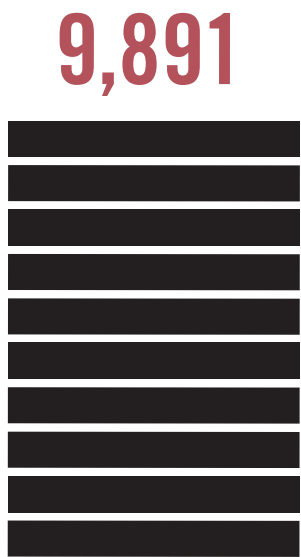


HARVARD MANAGEMENTOR



EXECUTIVE EDUCATION UPDATE

ENROLLMENT



NEW PROGRAMS

27

COURSES TAUGHT BY HBS FACULTY

100%

PARTICIPANT DEMOGRAPHICS

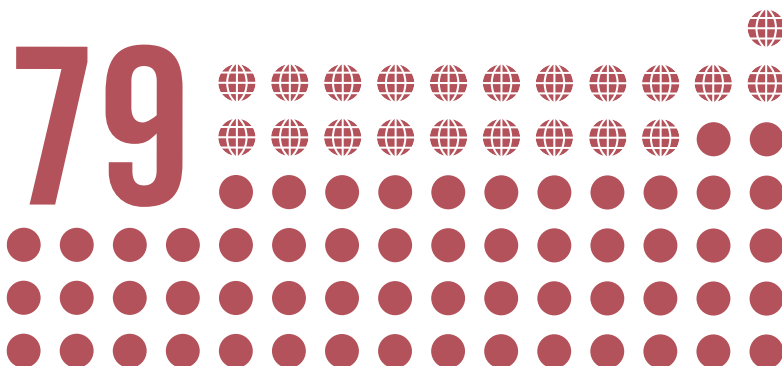


% Women

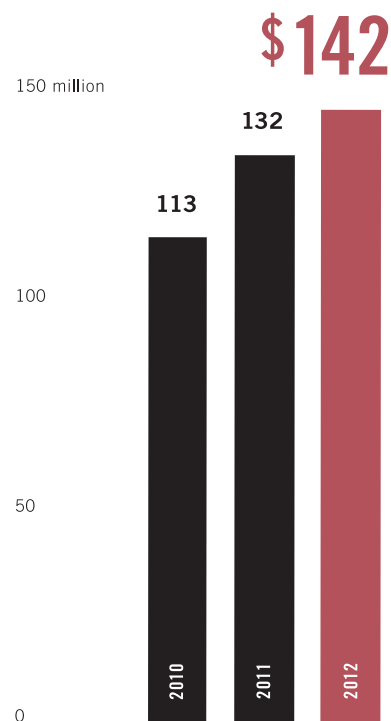


% International

OPEN ENROLLMENT PROGRAMS



REVENUE



CUSTOM PROGRAMS



INCLUSION



CULTURE & COMMUNITY
UPDATE ON THE INITIATIVE

CULTURE & COMMUNITY UPDATE ON THE INITIATIVE

In its second year, the Culture and Community Initiative continued its analysis and evaluation of HBS culture to identify areas and means of improvement. The ultimate goal is to cultivate an environment where all can thrive and reach their potential for advancing the School's mission. In the process, HBS is building its capacity for open, constructive dialogue on difficult cultural matters. As a faculty culture study based on 130 interviews and a faculty survey near completion, their draft findings are being reviewed. A staff study will follow.

A recent focus was a student culture study, which investigated differences in students' experience and academic performance along the lines of gender, race, native language, and sexual orientation. The study identified mechanisms that might explain such differences, including stereotypes and section dynamics. While it is evident that differences persist, the gender gap in grades has closed in the last two years and the gender gap in student satisfaction appears to be narrowing. These positive trends are tied to measures that the School has implemented in the last few years, such as heightening faculty consciousness of potential bias in grading, a redesigned MBA Program orientation, an expanded pedagogy with the FIELD curriculum, and the introduction of a new Honor Code that is clearer and more explicit, as well as course material that addresses gender issues among students both in and outside the classroom.

The Culture and Community Initiative, led by faculty chair Robin Ely, provides a broad framework for exploration beyond the immediate campus culture. A new study is being launched of alumni careers and life decisions, and the topic of women and leadership, long a subject of faculty research, is a current focus of curriculum development. These projects will feed into the celebration of Women at HBS in 2012–2013, commemorating the 50th anniversary of women students' admission to the two-year MBA Program.

IT GETS BETTER

LGBT students at HBS contributed to the It Gets Better Project. The LGBT Student Association produced a video in which HBS students recall their own experiences with "coming out" during their teenage years and how their lives have improved since they decided to do so. Dean Nitin Nohria ends the video discussing inclusion at HBS. The HBS production joins the more than 50,000 other user-created videos—collectively viewed more than 50 million times—at www.itgets-better.org.



INTEGRATION



ACROSS THE UNIVERSITY
I-LAB OFF TO A STRONG START

ACROSS THE UNIVERSITY
FORUM FOR WOMEN ENTREPRENEURS

ALUMNI
SHARING EXPERTISE

ACROSS THE UNIVERSITY I-LAB OFF TO A STRONG START

The Harvard Innovation Lab succeeded in reaching and involving key constituencies during its first nine months of operation, especially students and faculty from across the Harvard University community.

Student engagement significantly exceeded expectations during this period: there were nearly 14,000 Harvard student visits, with more than half of them representing schools other than HBS. Staff of the i-lab spoke at faculty meetings and met with individual faculty from multiple schools and from Harvard's teaching hospitals. As a result, a core group of faculty users has emerged, together with specific plans for generating broader involvement. Community-focused partner programming attracted participants from the Allston-Brighton area.

Engaging the Neighborhood

Fulfilling its mandate to be a resource to the surrounding Allston-Brighton neighborhood and the Boston community, the i-lab conducted a sustained public outreach campaign through channels ranging from social media to time-honored leafleting. As a result, nonprofit organizations ranging from the Allston-Brighton Community Development Corporation to the Harvard Allston Task Force held programs and meetings at the i-lab. There was also sustained activity among the i-lab's designated small business advisory partners—for example, weekly open office hours and a series of workshops sponsored by the Massachusetts Small Business Development Center Network and SCORE Boston's workshops and one-on-one counseling appointments. The i-lab also welcomes the public to the majority of its own workshops.

I-LAB HIGHLIGHTS

681

Programs & events

13,733

Student visits (58% non-HBS)

10

Academic courses

(taught by faculty from 6 Harvard schools)

79 professional workshops

111 student advising sessions
with resident experts

Hosted the \$100,000 Harvard
President's Challenge competition
(more than 170 teams & 500
Harvard students)

Inaugurated Lawyers-in-Residence
program (advised by Harvard Law
School)

Piloted alumni mentorship program
(12 Harvard alumni mentors,
17 student ventures)

Launched student venture
residency (65 teams from January–
May)

Sponsored & led Silicon Valley
January Trip (36 students from 6
Harvard schools)

Hosted & supported Startup Week-
end (140 students, 18 ventures)

Cosponsored & hosted Startup Career
Fair (650 students, 95 startups)

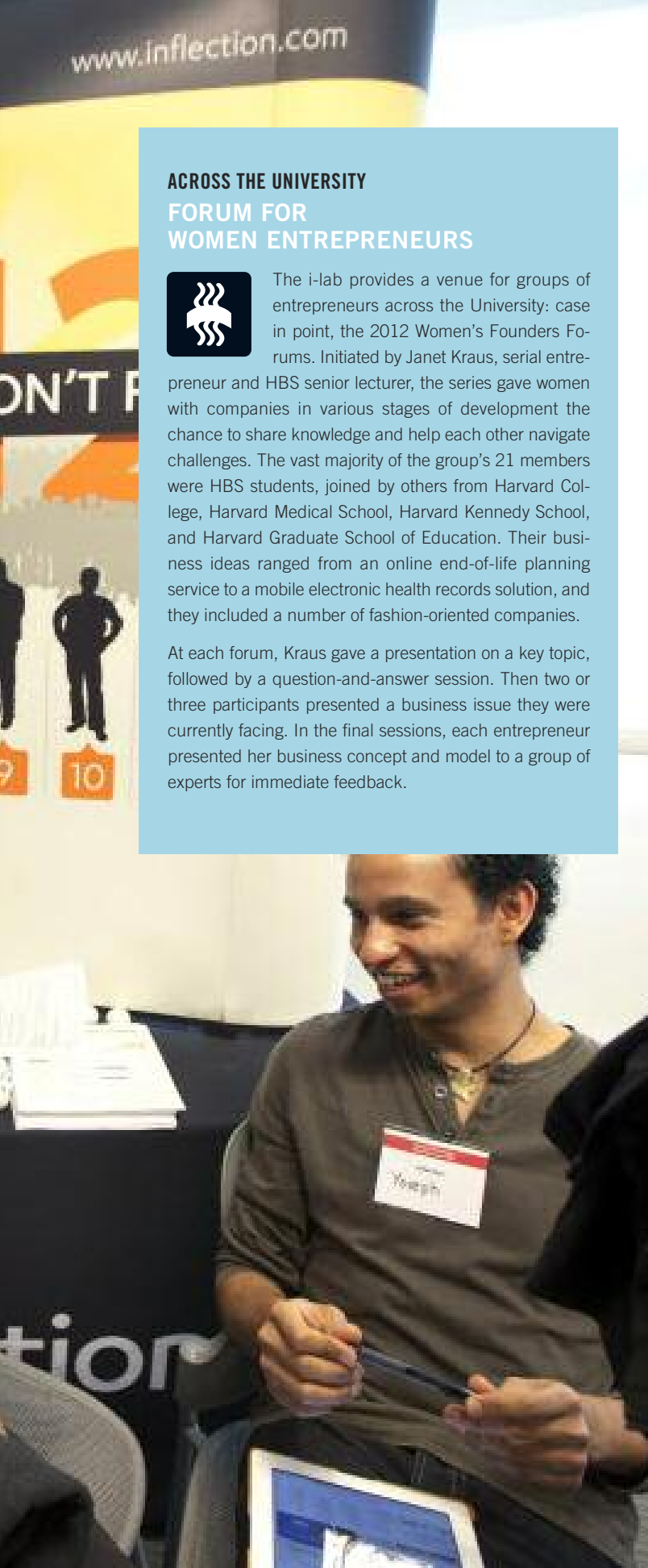
ACROSS THE UNIVERSITY

FORUM FOR WOMEN ENTREPRENEURS



The i-lab provides a venue for groups of entrepreneurs across the University: case in point, the 2012 Women's Founders Forums. Initiated by Janet Kraus, serial entrepreneur and HBS senior lecturer, the series gave women with companies in various stages of development the chance to share knowledge and help each other navigate challenges. The vast majority of the group's 21 members were HBS students, joined by others from Harvard College, Harvard Medical School, Harvard Kennedy School, and Harvard Graduate School of Education. Their business ideas ranged from an online end-of-life planning service to a mobile electronic health records solution, and they included a number of fashion-oriented companies.

At each forum, Kraus gave a presentation on a key topic, followed by a question-and-answer session. Then two or three participants presented a business issue they were currently facing. In the final sessions, each entrepreneur presented her business concept and model to a group of experts for immediate feedback.



ALUMNI

SHARING EXPERTISE



An initiative of the School's Arthur Rock Center for Entrepreneurship now in its sixth year, the HBS Entrepreneurs-in-Residence program brings accomplished entrepreneurs to the campus to work with students on projects and with faculty on cases and courses throughout the academic year.

The HBS Entrepreneurs-in-Residence also serve as Experts-in-Residence at the Harvard i-lab. Additionally, Experts-in-Residence from Harvard Law School and Harvard School of Engineering and Applied Sciences are included in the i-lab's roster of nearly 30 individuals who share their expertise.

Entrepreneurs-in-Residence, 2011-12:

Ash Ashutosh

Co-founder of ApplQ, a market leader of storage resource management solutions acquired by Hewlett-Packard

Jeffrey Bussgang, MBA '95

General partner at Flybridge Capital Partners and co-founder of the UPromise college savings service

Gary T. DiCamillo, MBA '75

Managing director for Eaglepoint Advisors, a turnaround management and advisory firm

Jeffrey Glass, MBA '94

Managing director at Bain Capital Ventures

Terry D. Kramer, MBA '86

A veteran of the telecommunications industry, including 18 years with Vodafone Group Plc/AirTouch Communications

Chris LaSala

Director of mobile partnerships at Google

Jim Matheson, MBA '01

General partner of Flagship Ventures

Eric Paley, MBA '03

Managing partner of early-stage venture capital fund Founder Collective

Eric Ries

Creator of the Lean Startup methodology

Diego Rodriguez, MBA '01

A partner at the design firm IDEO

Norman Selby, MBA '78

Senior advisor at the private equity firm Perseus, LLC

Lauri Union, MBA '92

Managing director at White Oak Investment Partners

Gwill E. York, MBA '84

Co-founder at Lighthouse Funds

ALUMNI UPDATE

ALUMNI

78,000 in **167** countries

ATTENDING REUNIONS

4,161
MBA & Executive Education alumni

ALUMNI CAREER HUB

11,702
Users

ALUMNI VOLUNTEERS

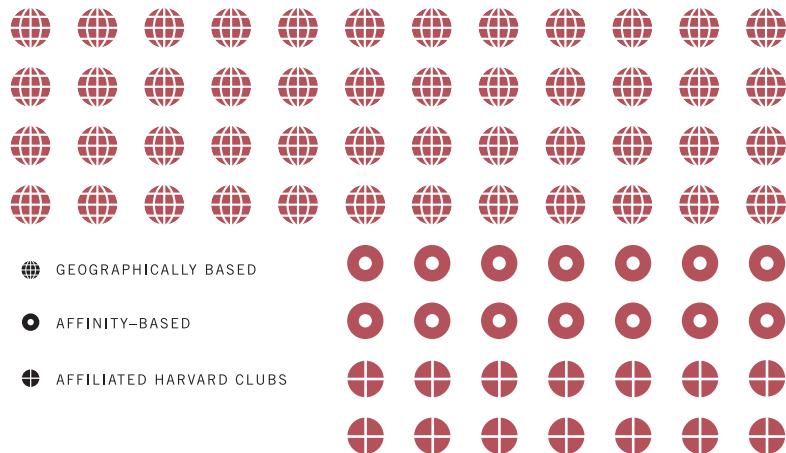
3,500

CLASS NOTES

18,000
Alumni mentions

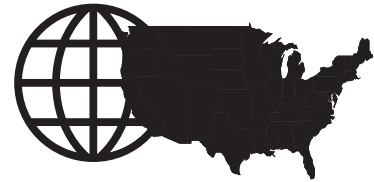
ALUMNI CLUBS

108
Clubs & associations



U.S. COMPETITIVENESS SURVEY

9,750
Alumni respondents



ALUMNI CLUB EVENTS

1,100

5-YEAR SUMMARY

FOR THE FISCAL YEAR ENDED JUNE 30,

Financial Data (in millions)	2012	2011	2010	2009	2008
Revenues	\$ 546	\$ 509	\$ 467	\$ 472	\$ 451
Expenses	504	456	415	438	423
Cash from Operations	42	53	52	34	28
Capital Investments	51	34	14	19	40
Building Debt Outstanding	99	103	112	119	121
Unrestricted Reserves	119	79	99	96	79
Endowment	2,665	2,779	2,311	2,117	2,971
Total Assets	\$ 3,490	\$ 3,528	\$ 3,087	\$ 2,826	\$ 3,684

MBA Program

Applications	8,963	9,134	9,524	9,093	8,661
Percent Admitted	13%	12%	11%	12%	12%
Yield	90%	90%	89%	89%	91%
Enrollment	1,805	1,860	1,864	1,809	1,796
Tuition	\$ 51,200	\$ 48,600	\$ 46,150	\$ 43,800	\$ 41,900
Average Fellowship Aid per Student	\$ 29,843	\$ 26,745	\$ 23,989	\$ 24,393	\$ 21,591

Doctoral Programs

Applications	868	830	931	798	595
Percent Admitted	4%	5%	4%	4%	6%
Yield	68%	68%	69%	69%	81%
Enrollment	137	132	125	120	105

Executive Education

Enrollment	9,891	9,939	8,670	8,291	9,345
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Faculty

Faculty Positions (full-time equivalents)	232	217	218	228	219
Teaching Materials	640	635	538	608	647
Research Articles	184	150	155	146	152
Books	23	18	29	20	24

Staff

Staff Positions (full-time equivalents)	1,198	1,138	1,087	1,187	1,146
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Publishing

Cases Sold	10,603,000	9,764,000	9,668,000	8,334,000	8,240,000
Harvard Business Press Books Sold	1,580,000	1,665,000	1,769,000	1,478,000	2,025,000
HBR Circulation	256,000	241,000	236,000	237,000	246,000
HBR Reprints Sold	3,355,000	3,098,000	2,946,000	2,863,000	3,123,000

FROM THE CHIEF FINANCIAL OFFICER

Fiscal 2012 was the year in which HBS began executing on the five strategic priorities articulated early in Dean Nohria's tenure. We introduced bold changes in the MBA curriculum and opened Batten Hall, with its classroom hives for field-based MBA classes on the two upper floors and the new, University-wide Harvard Innovation Lab (i-lab) on the first. We also welcomed the largest cohort of new faculty in many years, broke ground on new Executive Education space at Tata Hall, and rolled out a broad interdisciplinary research project focused on U.S. competitiveness.

These initiatives were well-supported by another year of impressive top-line growth. Sales at Harvard Business Publishing (HBP) and tuition revenue from Executive Education programs both exceeded expectations. In addition, the School continued to benefit from the remarkable generosity of HBS alumni and friends, as unprecedented current use giving and a larger endowment distribution provided crucial support for new teaching and research initiatives.

In developing HBS's financial plan for the year, we strived to balance strategic investment and fiscal discipline in a period of continued instability in the global economy with innovation across the School. This environment created more than the usual amount of uncertainty in forecasting the operating budget—particularly expenses, as it was unclear what level of investment would be needed to support our ambitious agenda as it unfolded. Nonetheless, total operating expenses for fiscal 2012 came in within 1 percent of budget, rising 11 percent from fiscal 2011.

This increase was largely in the School's core academic and research programs, driven by higher fixed costs for MBA innovation, educational technology, additional faculty and staff, and new faculty research initiatives. Although HBP and Executive Education incurred higher operating costs as well, revenue growth and careful resource management enabled the groups to deliver a third consecutive year of combined margin improvement, which was instrumental in fueling strong cash from operations. As in the prior fiscal year, this cash flow enabled the School to execute on its academic mission and increase capital spending without taking on new debt, while still ending the year with a larger unrestricted reserves balance.

MBA Program Innovation

As detailed earlier in this report, fiscal 2012 marked the School's launch of FIELD, a new yearlong course in the MBA required curriculum. Supporting the FIELD modules on campus and globally added \$8 million to the cost of delivering MBA education at HBS during the year. These incremental expenses included, among others, international travel costs for students and seed funding for student-launched businesses, as well as the cost of expanding the I.T. platform to support FIELD exercises. In addition, HBS invested \$9 million to complete the renovation of Batten Hall.

The faculty expects to drive similar kinds of innovations in the MBA elective curriculum.

Fellowship Spending (in millions)	MBA	Total*
FY 12	\$ 27	\$ 37
FY 11	26	36
FY 10	25	35
FY 09	25	33
FY 08	21	26

* includes Doctoral Programs and Executive Education

HBS continues to enhance and refine its enterprise risk management program through an ongoing process of risk assessment, mitigation, and monitoring. Harvard University has a Risk Management Council, with HBS representation, that is responsible for managing key risks across the University. Through collaboration with the university, we work to address critical issues facing the School.

The first phase—splitting the traditional two-term elective program into four half-terms—took place in fiscal 2012. Shifting to this modular approach provided faculty and students with greater flexibility, and led to an increase in the number of field-based learning courses for second-year students. We expect field-based coursework to become a more significant part of the elective curriculum in the years ahead.

The School's commitment to innovation in MBA education is accompanied by its long-standing goal of welcoming the most talented MBA students, regardless of their country of origin or financial resources. HBS also endeavors to attract strong MBA candidates who, because of financial constraints, might not otherwise consider a degree in business. We worked closely with the University to ensure continued access to the loans that many students need to finance their MBA education.

Most importantly, HBS further increased its commitment to MBA financial aid. Average fellowship support per student increased 12 percent to \$29,843 in fiscal 2012, from \$26,745 in the prior year. Over the past five fiscal years, the School's average two-year MBA fellowship award has grown from \$36,908 for the HBS Class of 2008 to \$59,000 for the Class of 2013.

Research

HBS faculty members are distinguished by their commitment to creating knowledge with power in practice. Translating this intellectual ambition into intellectual capital for the School is a resource-intensive process that typically consumes more than 20 percent of the HBS operating budget. Fiscal 2012 was no exception, as total spending for faculty research support grew by \$12 million, or 12 percent, year-over-year, to a record \$109 million.

Investment in Research (in millions)	
FY 12	\$ 109
FY 11	97
FY 10	92
FY 09	97
FY 08	102

This growth in part reflected the larger size of the faculty, which stood at 232 full-time equivalents (FTEs) as the year began. It was also driven by strategic change. Although the pursuit of opportunities to create new knowledge through individual projects continues to be the School's typical model, our research agenda includes a growing number of large-scale projects that are multidisciplinary and often global

in scope—and therefore increasingly resource-intensive. The School's flagship research initiative in fiscal 2012—the U.S. Competitiveness Project, covered previously in this report—exemplified this emerging model.

Developing content for the MBA FIELD course was another major focus for the faculty's research in fiscal 2012. In addition, reflecting the School's priorities, HBS faculty members continued to extend their research presence in critical regions around the world. To support the faculty's expanding global immersion activity, as well as international case development, expenses related to the School's network of global research centers grew 14 percent from fiscal 2011.

Building the faculty required to execute on the School's educational and research mission continues to be a key strategic priority for HBS. As a result of recruiting fewer faculty than in fiscal 2011, coupled with normal retirements and planned and unplanned departures, the total size of the faculty has declined to 228 FTEs as we begin the new fiscal year. Consequently, although overall faculty research activity will continue to be ambitious, the School's total research investment for fiscal 2013 is budgeted to rise a modest 3 percent from fiscal 2012.

Capital Investment (in millions)	
FY 12	\$ 51
FY 11	34
FY 10	14
FY 09	19
FY 08	40

Campus Renewal and Expansion

HBS regularly makes capital investments in construction, renewal, and maintenance of facilities, as well as infrastructure and I.T. systems upgrades, based on a comprehensive long-term campus development strategy. Now that Batten Hall's MBA innovation space has been added and capital investments in that facility have been completed,

the School's top near-term capital budget priority is to resolve space constraints in Executive Education.

Executing on this priority in fiscal 2012, HBS broke ground on a new building for the first time in more than a decade. Scheduled to open in early 2014, the seven-story, 161,000-square-foot Tata Hall will include two state-of-the-art classrooms, comfortable common spaces, and housing for 180 Executive Education program participants.

Construction of Tata Hall was the School's largest single capital investment in fiscal 2012, totaling \$25 million. The building is funded in part by a \$50 million gift from Tata Trusts and Companies, a philanthropic arm of India's Tata Group, headed by Ratan Tata, an AMP 71 (1975) graduate. The balance of the project will be funded by cash from the School's operations.

In addition to this major project, HBS continued to make capital investments aimed at maintaining the integrity and enhancing the quality of the campus. The School addressed ongoing maintenance needs, made sustainability and energy efficiency improvements, and completed a number of I.T. infrastructure upgrades during the year. Including ongoing initiatives and major projects, total capital spending for fiscal 2012 increased 50 percent to \$51 million, from \$34 million last year.

Executive Education Revenue (in millions)	
FY 12	\$ 142
FY 11	132
FY 10	113
FY 09	107
FY 08	106

Income for Operations

We wrestled with a paradox in creating our financial plan for fiscal 2012. Although conditions in the higher education market pointed to modest growth in HBP and Executive Education, we knew that fiscal 2012 would be a year of innovation and experimentation at HBS. The initiatives unfolding across the campus would likely give

rise to unforeseen expenses, largely but not solely related to the MBA FIELD course. MBA program delivery costs are not fully recovered by student tuition and fees, and FIELD has widened this gap.

Given these upward pressures on operating costs, we set ambitious growth targets for HBP and Executive Education, as well as the School's External Relations group. Fortunately, the School's initial stretch revenue targets for HBP and Executive Education were surpassed at year-end, despite factors that could have limited their growth—challenges in the publishing industry, for example, and a growing array of competitors offering executive development programs.

The School's publishing business continued to distance itself from the competition in an environment of rapid change in consumer preferences and in the industry's underlying technology, while managing its expenses very effectively. Led by strong sales in the higher education market and improved circulation metrics at *Harvard Business Review*, all of our publishing groups delivered top-line growth in fiscal 2012. As a result, HBP again outperformed our initial expectations for revenue and margin contribution, following an extraordinary performance in the prior year. The School's publishing revenue for fiscal 2012 increased by \$13 million, or 9 percent, from fiscal 2011, exceeding our forecast by 3 percent.

In the School's Executive Education business, meanwhile, everything came together in fiscal 2012 in a way that could not have been predicted. Participation in both open enrollment and custom programs far exceeded the targets in our financial plan. Executive Education revenue grew by \$10 million, or 8 percent, from fiscal 2011, exceeding the School's fiscal 2011 budget by 14 percent.

This growth was driven by the launch of new Executive Education programs on campus and in China, India, and Europe, as well as by the establishment of new relationships with a range of global businesses and higher education partners. At the same time, Executive Education continued to be increasingly effective in managing expenses and utilizing available capacity, and the group's margin

contribution for fiscal 2012 exceeded the School's forecast.

Fiscal 2012 also turned out to be a successful year for fundraising at the School, highlighted by strong growth in current use giving. Driven by the HBS community's class reunion and annual giving, unrestricted current use gifts grew by \$2 million, or 12 percent, year-over-year to an all-time record of \$19 million.

Income from current use gifts provides flexible funds that enable the School to execute on new strategic priorities, chief among them in fiscal 2012 being FIELD, the i-lab, and the U.S. Competitiveness Project. Because launching FIELD added significantly to operating costs during the year, unrestricted current use giving provided crucial support at a pivotal moment in the evolution of MBA education at the School. Total current use giving, including restricted as well as unrestricted gifts, totaled \$35 million, nearly matching the record of \$36 million set in fiscal 2011.

From a broader perspective, gifts of all kinds from HBS alumni and friends—including endowment and construction gifts as well as current use giving—are central to the School's economic model. Without the HBS community's generosity, the School may well have been forced to tap unrestricted reserves in order to execute on its strategic priorities in fiscal 2012.

Cash giving to HBS for construction projects totaled \$5 million in fiscal 2012. This compares to \$25 million in the prior year—the amount received from philanthropic entities of India's Tata Group for the construction of Tata Hall. Reflecting this decline, as well as modestly lower endowment giving, total cash received from gifts in fiscal 2012 decreased to \$68 million from \$89 million in the prior year.

HBS funds a substantial portion of its operations through distributions from the School's endowment—income from endowment giving by alumni and friends over many years. Through the endowment, the HBS community's generosity makes an enormous difference to the financial health of the School. Reflecting the 20 percent gain in its market value in 2011 as the endowment continued to recover from losses incurred earlier in this decade, the School's

financial plan for fiscal 2012 assumed that endowment distribution income would increase 4 percent from the prior year.

However, HBS continued its efforts to maximize the use of investment income from existing endowment funds, while receiving a number of new endowment gifts. As a result, the School's fiscal 2012 endowment distribution exceeded the budget by

Publishing Revenue (in millions)

FY 12	\$ 165
FY 11	152
FY 10	135
FY 09	137
FY 08	139

\$4 million, rising 9 percent year-over-year to \$109 million. Including the endowment distribution and revenue from unrestricted current use giving, total income from past and current gifts to HBS in fiscal 2012 exceeded the School's forecast by \$8 million, or 7 percent.

We develop each year's financial plan with an eye not only toward living within its means, but also toward serving as a model of what the School teaches. In line with these goals, we believe that generating an operating surplus is crucial to the School's identity. As it has for the past decade, HBS successfully delivered on this objective in fiscal 2012, generating \$42 million in cash from operations, compared to \$53 million in fiscal 2011, and remaining solidly cash flow positive for the year.

The Supplemental Financial Information section of this report concludes with a discussion about the School's unrestricted reserves. I will preview this discussion here. Along with a mix of internally generated cash, gifts, and judicious use of debt, HBS relies on unrestricted reserves to finance major campus expansion projects and to capitalize on strategic opportunities as, and sometimes before, they emerge. After funding its ambitious teaching and research agenda and nearly doubling its capital investments, as previously discussed, the School concluded fiscal 2012 with a strong year-end unrestricted reserves balance.

Maintaining a healthy level of unrestricted reserves outside the endowment is particularly crucial to the HBS economic model because the School derives such a large percentage of its income from HBP and Executive Education. Financial results in these businesses are directly affected by economic and competitive pressures, as evidenced by their slower growth during the recession of the late 2000s. When cyclical forces work against us again, as they surely will at some future point, the liquidity provided by our strong unrestricted reserves balance will prove to be as critical to ensuring continuing execution of the School's mission as it was four years ago.

Fiscal 2013 Outlook

Although HBS is still in the early stages of executing on its strategic priorities, we are more confident about the investment levels needed to support key activities in fiscal 2013 than we were in fiscal 2012. Our financial plan for fiscal 2013 is guided, as always, by our desire to be strategically ambitious but financially prudent.

In preparing the fiscal 2013 plan we were cautiously optimistic in estimating revenues and operating margins. HBP is seeing mixed signals as we begin the year. Domestic demand for print and eLearning products remains strong, but global economic issues, particularly in Europe, are slowing HBP's overall business growth. At the same time, we expect fiscal 2013 to be another year of aggressive competitive investment in products and technology at HBP, leading to corresponding pressures on the unit's operating margins.

Fiscal 2013 is shaping up as another challenging year for Executive Education as well. Given the currently strong market demand for the School's executive program offerings—and the group's proven ability to surprise on the upside—the potential for outperformance in fiscal 2013 cannot be ruled out. However, the School has truly reached its limits for housing capacity, and this headwind will persist until the opening of Tata Hall.

Elsewhere on the top line, revenue from MBA tuition and fees is projected to rise 7 percent from fiscal 2012, which will be partially offset by growth in financial aid. We

have been informed by the University that the School's fiscal 2013 endowment distribution payout rate will grow 5 percent from fiscal 2012. Reflecting this increase, as well as additional income from new gifts to the School's endowment, we expect the School's total endowment distribution revenue to rise 6.4 percent in fiscal 2013.

While applying caution in estimating the School's fiscal 2013 revenue performance, we looked carefully for areas where additional investment might be needed and, conversely, where we might be able to scale back our spending. We responded to revenue challenges in the late 2000s by finding a multitude of ways to improve the efficiency of the School's underlying operations. As a result, rigorous expense control is part of our culture at HBS, and it will remain so going forward.

Nonetheless, the pace of change across the School will continue to accelerate. In addition to completing the modular program rollout in the MBA elective curriculum in fiscal 2013, further innovation is planned for the MBA Class of 2016. The School also will be redoubling on its commitment to making MBA and Doctoral education affordable for a broader cross section of applicants in fiscal 2013, leading to a planned 11 percent year-over-year increase in fellowship expense. Faculty research spending is projected to continue growing as well.

HBS will also be strengthening the technology infrastructure that supports many of its core business operations. There will be increased collaboration between HBS and University partners on the development of a new Student Information System. Our fiscal 2013 financial plan also reflects higher compensation costs, driven primarily by the addition of staff FTEs to support FIELD, I.T. projects, Executive Education business development and program delivery initiatives, and growth in the School's publishing business, as well as the next HBS capital campaign. Increased travel and other campaign-related activities will also add to the School's spending in fiscal 2013.


In addition, HBS has ambitious capital projects planned for fiscal 2013. With this being the year of peak construction spending at Tata Hall, our capital budget is up

94 percent from fiscal 2012 to \$99 million, including \$58 million related to that project. Tata Hall is the centerpiece for a broader, long-term transformation of the Executive Education precinct at the north-east corner of the HBS campus.

Also included in the fiscal 2013 capital budget is \$5 million for the initial construction of a new Executive Education facility—The Ruth Mulan Chu Chao Center—to replace Kresge Hall. We will simultaneously be investing in a project to extend the campus tunnel system, with the goal of ultimately integrating the Chao Center and Tata Hall with the rest of the Executive Education precinct.

The School is financially well positioned to execute on these operational and campus improvement objectives in fiscal 2013. The economic model that HBS has developed over the years remains strong and self-sustaining. Given the School's agenda, however, the need for flexible innovation-focused funding will continue to grow. This need cannot be met solely by growth in revenue from HBP, Executive Education, and the endowment, much less MBA tuition and fees. Consequently, income from unrestricted current use gifts will be crucial to HBS over the next few years, and this type of giving will be a priority for the School's next capital campaign.

Although HBS is in strategic investment mode as we begin fiscal 2013, we will be vigilant to signals that may warrant our being more cautious, mindful of the risks that persist in the global economy. We remain committed as always to be responsible stewards of the School's financial resources in the year ahead.



RICHARD P. MELNICK, MBA '92
CHIEF FINANCIAL OFFICER
OCTOBER 1, 2012

STATEMENT OF ACTIVITY & CASH FLOWS*

FOR THE FISCAL YEAR ENDED JUNE 30,

Revenues (in millions)	2012	2011	2010
MBA Tuition & Fees	\$ 99	\$ 96	\$ 92
Executive Education Tuition	142	132	113
Publishing	165	152	135
Endowment Distribution	109	100	101
Unrestricted Current Use Gifts	19	17	13
Housing, Rents, & Other	11	11	11
Interest Income	1	1	2
Total Revenues	\$ 546	\$ 509	\$ 467
Expenses			
Salaries & Benefits	\$ 241	\$ 219	\$ 203
Publishing & Printing	59	55	51
Space & Occupancy	47	44	41
Supplies & Equipment	10	10	9
Professional Services	35	31	22
Fellowships	37	36	35
University Assessments	17	15	15
Debt Service	6	7	7
Other Expenses	52	39	32
Total Expenses	\$ 504	\$ 456	\$ 415
Cash from Operations	\$ 42	\$ 53	\$ 52
Use of Endowment Gifts or Appreciation	24	18	13
Cash Before Capital Activities	\$ 66	\$ 71	\$ 65
Capital Expenses	\$ (51)	\$ (34)	\$ (14)
Use of Gifts for Capital Projects	17	3	3
Net Capital Expenses	\$ (34)	\$ (31)	\$ (11)
New Borrowings	\$ 0	\$ 0	\$ 0
Debt Principal Payments	(4)	(9)	(7)
Other Activity	12	(51)	(44)
Net Debt & Other	\$ 8	\$ (60)	\$ (51)
Change in Unrestricted Reserves	\$ 40	\$ (20)	\$ 3
Beginning Balance, Unrestricted Reserves	\$ 79	\$ 99	\$ 96
Ending Balance, Unrestricted Reserves	\$ 119	\$ 79	\$ 99

CONSOLIDATED BALANCE SHEET

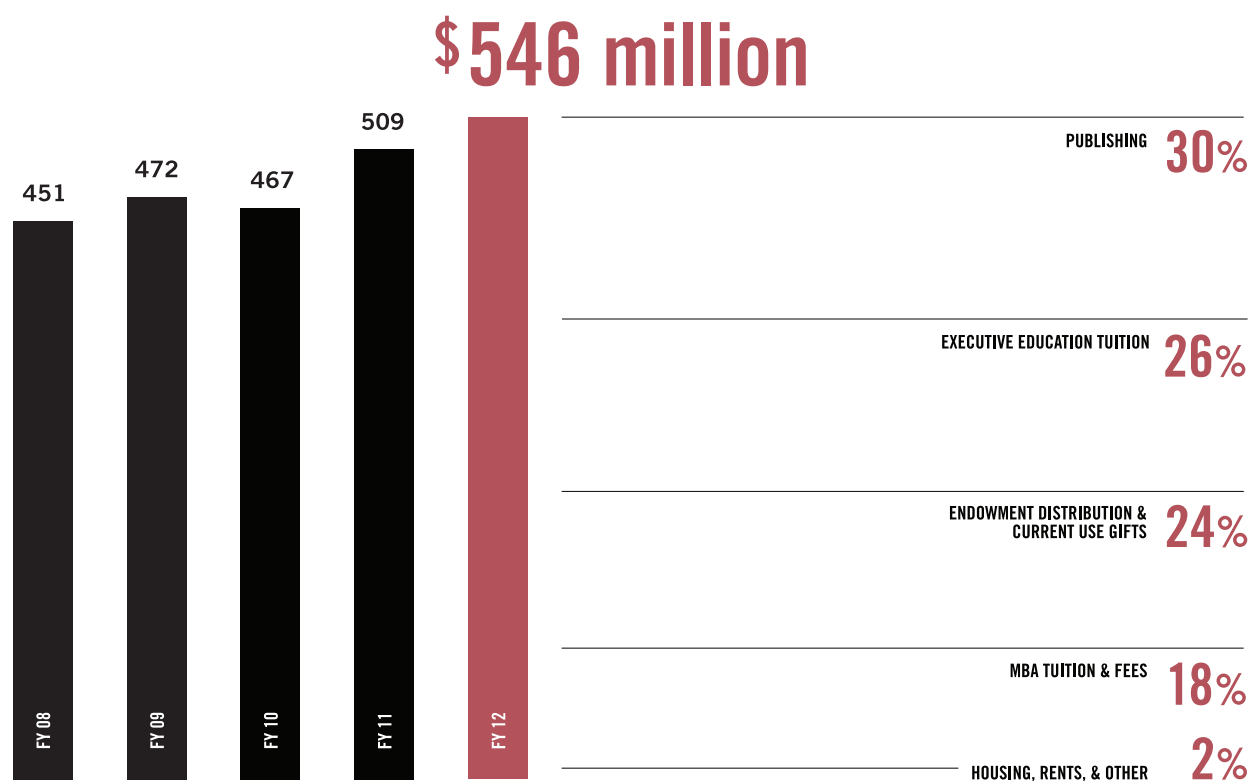
FOR THE FISCAL YEAR ENDED JUNE 30,

Assets (in millions)	2012	2011	2010
Cash	\$ 26	\$ 18	\$ 10
Unrestricted Reserves	119	79	99
Receivables, Loans, & Other Assets	222	214	235
Invested Funds:			
Endowment Investments	2,485	2,569	2,154
Current Fund Investments	42	66	35
Interest in Trusts Held by Others	138	144	122
Facilities, Net of Accumulated Depreciation	458	438	432
Total Assets	\$ 3,490	\$ 3,528	\$ 3,087
Liabilities			
Deposits, Advances, & Other	\$ 53	\$ 44	\$ 45
Deferred Revenue	65	62	59
Other Debt Owed to University	23	28	26
Building Debt	99	103	112
Total Liabilities	\$ 240	\$ 237	\$ 242
Composition of Net Assets			
Unrestricted Reserves	\$ 119	\$ 79	\$ 99
Undistributed Income & Other	5	8	8
Pledge Balances	92	80	97
Student Loan Funds	10	10	10
Investment in Facilities	359	335	320
Endowment & Other Invested Funds	2,665	2,779	2,311
Total Assets Net of Liabilities	\$ 3,250	\$ 3,291	\$ 2,845

* The Statement of Activity & Cash Flows presents a managerial view of Harvard Business School operations focused primarily on cash available for use. It is not intended to present the financial results in accordance with generally accepted accounting principles (GAAP). A presentation in accordance with GAAP would report higher operating revenues for gifts and endowment distribution and would include depreciation expense, yielding income from operations of \$30 million in fiscal 2012. Cash flows, however, would be equivalent under GAAP.

SUPPLEMENTAL

FINANCIAL INFORMATION



REVENUES

Harvard Business School's economic model is unique among the Harvard University schools and in higher education. Internally funded faculty research has long been the core of the model. Because HBS self-funds research, faculty members are free to pursue the opportunities they believe have the greatest potential to create new knowledge, without the constraints associated with funding from external organizations.

When transformed by the faculty into HBS cases, this new knowledge sparks the dynamism and focus on cutting-edge business issues that distinguishes the educational programs at the School. At the same

time, the intellectual capital created by the faculty is disseminated by Harvard Business Publishing (HBP) and the School's Executive Education group in corporate and higher education markets around the world. Margin contributions from these competitive business units complete the self-sustaining cycle by serving as the primary sources of funding for the faculty's research.

Although income from HBP and Executive Education makes HBS less reliant on its endowment than other schools at Harvard, alumni generosity has become increasingly important to the School's economic model

in recent years. Giving to the endowment, as well as unrestricted current use giving, supplements income from publishing and executive programs and provides the School with additional financial stability and flexibility.

The revenues generated by HBP and Executive Education in any given year are sensitive to trends in the economy and the capital markets, as are income from the endowment and alumni current use giving to the School. These trends remained favorable in fiscal 2012.

On a combined basis, HBP and Executive Education revenues grew by \$23 million, or 8 percent, from fiscal 2011 to \$307 million.

This represented 56 percent of total revenues—the same percentage as in fiscal 2011.

Distributions of income from the HBS endowment have ranged between 20 and 24 percent of total revenues at HBS for the past several years. In fiscal 2012, the School's endowment distribution revenue increased by \$9 million, or 9 percent, from fiscal 2011 to \$109 million. This equaled 20 percent of total revenues, flat with the prior year's 20 percent. Revenue from unrestricted current use gifts grew by \$2 million year-over-year, climbing from \$17 million to \$19 million.

The School's total revenues for fiscal 2012 rose by \$37 million, or 7 percent, from fiscal 2011. In addition to higher HBP, Executive Education, endowment distribution, and current use giving revenues, this growth reflected a \$3 million increase in revenue from MBA tuition and fees. The School's other revenue categories— income from housing rents and interest— were flat with the prior year.

MBA Tuition & Fees

HBS sets MBA tuition and fees at levels that do not fully recover annual operating expenses, much less the School's long-term investments in MBA program innovation. The shortfall is offset primarily with income from gifts given by alumni, whose generosity enriches the HBS educational experience for future generations of students. First-year MBA tuition in fiscal 2012 was \$51,200—near the midpoint among the seven comparable schools tracked by HBS—compared with \$48,600 last year. Tuition and fee revenue from the School's core academic program grew to \$99 million, from \$96 million in fiscal 2011.

Executive Education

Executive Education found new ways to improve capacity utilization in fiscal 2012, enabling the business to continue its top-line growth. Reflecting continued solid demand for open enrollment and custom programs—particularly those offered outside the United States—total participant enrollment in fiscal 2012 was essentially flat with the prior year at 9,900. Executive Education tuition revenue grew 8 percent to \$142 million, from \$132 million a year earlier.

Harvard Business Publishing

The School's publishing business continued to successfully navigate a challenging industry environment in fiscal 2012. HBP more than offset the impact of the global economic slowdown, particularly in Europe, with double-digit growth in eLearning product sales, as well as higher *Harvard Business Review* circulation revenue and stronger sales of HBS cases. HBP's revenue grew by \$13 million, or 9 percent, from fiscal 2011 to \$165 million.

Gifts & Endowment

Gifts to HBS have been playing an increasingly important role in supporting the School's operations for the past 10 years. Fiscal 2012 was no exception as revenue from gifts—in the form of the endowment distribution and current use giving—increased to \$128 million, or 24 percent of total revenues, from \$117 million in fiscal 2011.

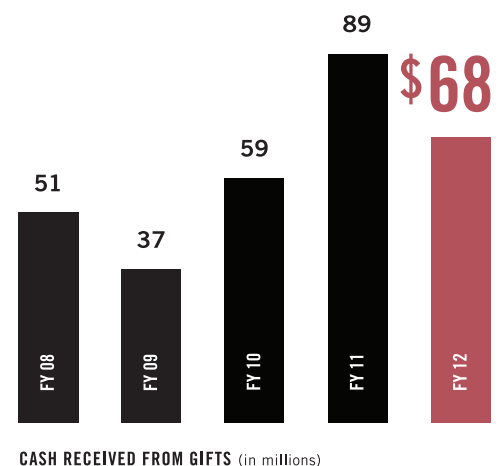
Like other Harvard schools, HBS raises its own funds, and the School's fundraising results exceeded internal expectations in fiscal 2012. Continuing to demonstrate extraordinary involvement and generosity, the HBS community gave a record \$129 million in new gifts and pledges to the School,

compared to \$77 million in fiscal 2011.

HBS received gifts from more than 12,000 donors in fiscal 2012, including MBA, Doctoral, and Executive Education program alumni, as well as other friends of HBS. As in fiscal 2011, approximately 27 percent of the School's MBA alumni gave to HBS during the year. Total cash received from gifts, including new endowment gifts and gifts for capital construction projects, payments on prior years' pledges, and restricted and unrestricted current use giving, decreased 24 percent to \$68 million from \$89 million in fiscal 2011, which included an initial \$25 million cash payment for construction of Tata Hall.

Fiscal 2012 marked the School's third consecutive year of double-digit growth in unrestricted current use giving. Revenue from these flexible gifts increased 12 percent to \$19 million, from \$17 million in fiscal 2011, providing critical funding for several new programs related to the School's five strategic priorities.

The School's endowment distribution revenue, meanwhile, reversed two years of decline in fiscal 2012, increasing 9 percent to \$109 million. The HBS endowment currently consists of more than 1,000 discrete



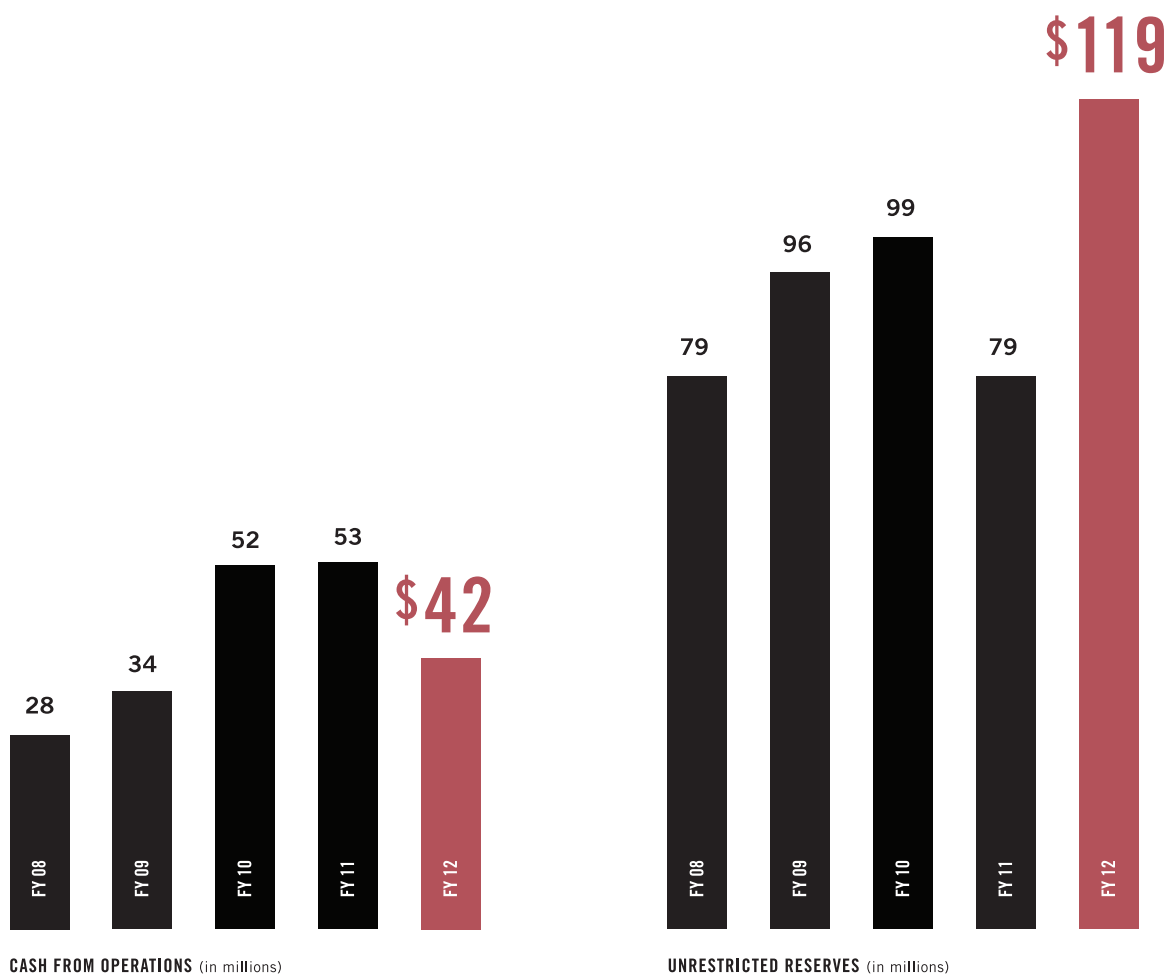
funds established over the years by individual donors, corporations, and reunion classes. The School budgets the use of endowment distributions to support operations according to the terms of each gift. Funds within the HBS endowment, along with those of the other Harvard schools, are managed by Harvard Management Company (HMC), a subsidiary governed and wholly owned by the University.

The University determines the payout rate—that is, the percentage of the endowment withdrawn in any given year and distributed for operations and for strategic purposes. Consistent with the long-term goal of balancing the maintenance of the endowment’s purchasing power for future generations and the desire to pursue nearer-term opportunities, the University’s targeted annual payout range is between 5.0 and 5.5 percent.

The University’s payout rate for fiscal 2012 was 5.5 percent, compared to 5.3 percent for fiscal 2011. HBS continued its efforts

Endowment Returns	Harvard Endowment	Benchmark*
FY 12	- 0.1 %	6.71 %
FY 11	21.4	19.5
FY 10	11.0	12.6
FY 09	- 27.3	-13.5
FY 08	8.6	-4.4
FY 07	23.0	17.7
FY 06	16.7	10.8
FY 05	19.2	10.5
FY 04	21.1	16.2
FY 03	12.5	4.0
3-Year Growth	10.4 %	12.8 %
10-Year Growth	9.5 %	5.9 %

* Industry benchmark figures for FY09–FY12 are S&P 500 / CITI US BIG; figures for FY03–FY08 are Trust Universe Comparison Service



to maximize the use of investment income from existing endowment funds, while receiving a number of new endowment gifts. As a result of the payout increase and new gifts, the School's fiscal 2012 endowment distribution increased 9 percent from the prior year to \$109 million.

The absolute return on the Harvard endowment for fiscal 2012 was essentially flat, net of all expenses and fees, compared to +21.4 percent for the prior year. As long-term investors, HMC manages the University endowment with three primary objectives: growth, liquidity, and risk management. Although growth in the endowment's market value for fiscal 2012 was well below long-term averages, the University's investments benefited from the improved liquidity and risk management that HMC has built into the portfolio over the past several years.

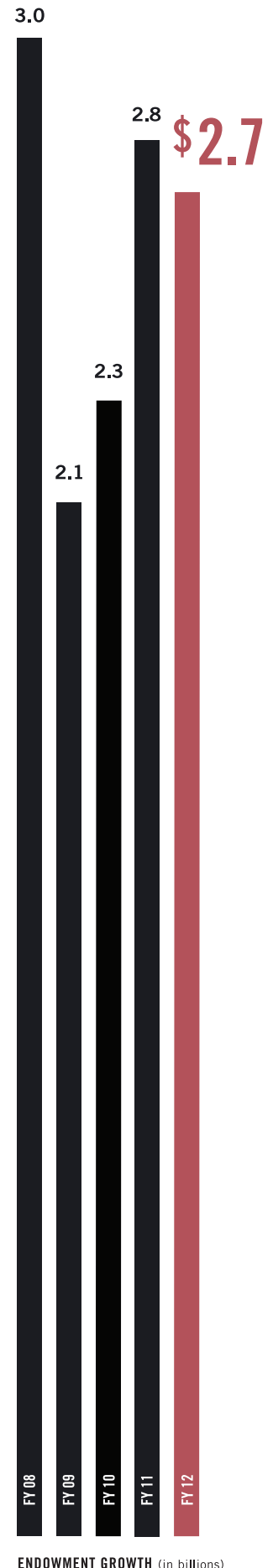
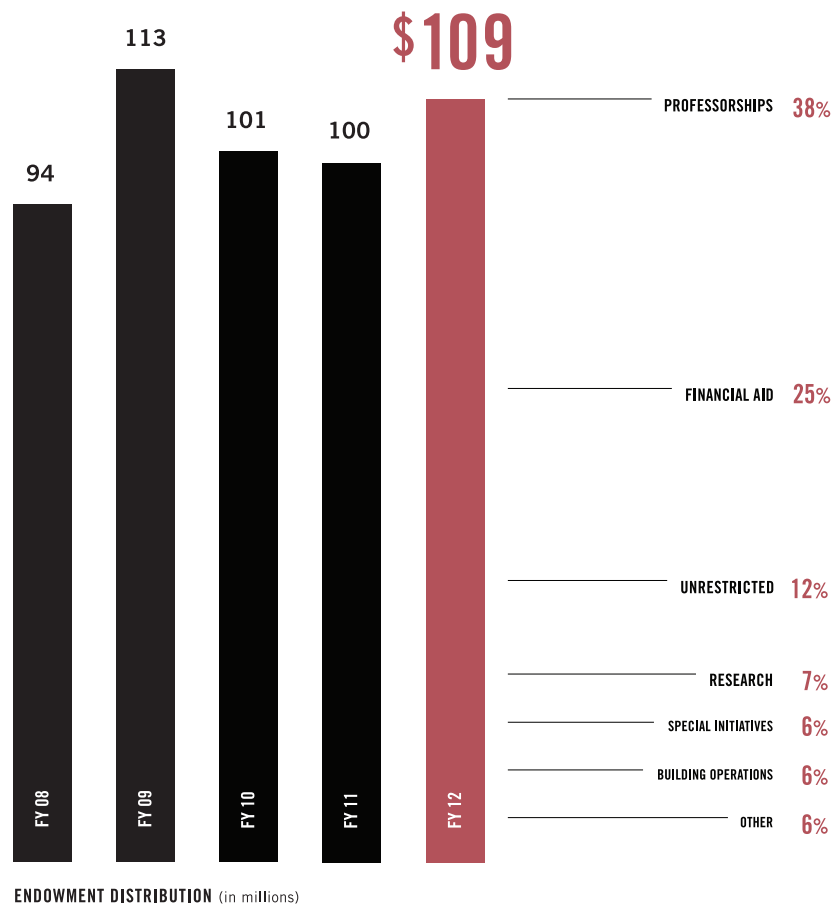
From a longer-term perspective, the average annual return on the University endowment for the past 20 years has been 12.3

percent. This exceeds HMC's performance benchmark by more than 300 basis points per year and the return from a simple 60/40 percent stock/bond portfolio by even more substantial margins.

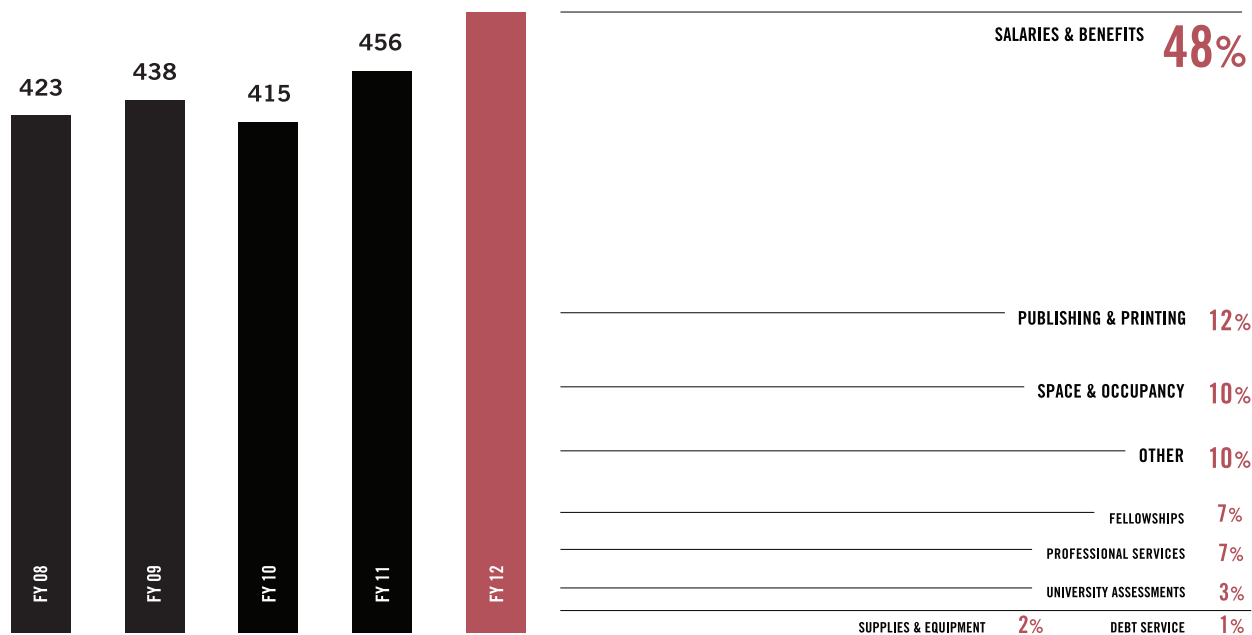
The fiscal 2012 year-end market value of the HBS endowment, plus the School's current use funds, was \$2.7 billion at June 30, 2012, compared to \$2.8 billion a year earlier. This decline reflected the flat net appreciation in market value and the subtraction of the School's annual distribution and decapitalizations, offset by \$23 million in endowment gifts received by HBS during the year.

Other Revenues

Revenue in the Housing, Rents, and Other category remained flat for the third consecutive year in fiscal 2012 at \$11 million. Reflecting the stable environment for interest rates, the School's fiscal 2012 interest income also was flat with the prior year.



\$504 million



EXPENSES

The School's total operating expenses for fiscal 2012 increased by \$48 million, or 11 percent, from fiscal 2011 to \$504 million—within 1 percent of the amount budgeted for the year. There were three key reasons for this increase.

The first reason, in order of size, was growth in spending at HBP and Executive Education in areas that would be considered “cost of goods sold” in a profit-seeking enterprise. Expenses charged to HBP and Executive Education include direct costs for staff compensation, specialized outside professional services in functional areas such as I.T. and marketing, and residence expenses for Executive Education participants.

Both of these groups were able to sustain strong gross margins and deliver healthy

operating leverage on sales growth in fiscal 2012. As a result, despite incurring higher expenses in these areas, their margin contributions to the School's operations increased from the prior year.

MBA program innovation was the School's second key expense growth driver in fiscal 2012. HBS spent an incremental \$8 million during the year to support the implementation of the new required first-year course, FIELD. This reflected higher student and faculty travel expenses associated with field-based learning, compensation for additional support staff, operating costs for the MBA classroom space at Batten Hall, and I.T. costs related to new FIELD simulations and course delivery tools.

The School's increased investments in

faculty research were the third key reason for the growth in fiscal 2012 operating expenses. As with HBP, Executive Education, and MBA program innovation, faculty research investments at HBS cut across several line items in the School's Statement of Activity and Cash Flows. They include a portion of faculty salary and benefits expense, as well as direct costs for research support staff and travel.

Also included in the cost of faculty research are allocated expenses for the School's network of global research centers, as well as library resources, campus facilities, technology, and administration. Fiscal 2012 was a year of ambitious research activity at HBS. Driven by support costs for individual faculty projects and growth in the size of the faculty, as well as for the U.S. Competitiveness

Project and other multidisciplinary faculty initiatives, the School's research investments increased to \$109 million in fiscal 2012, from \$97 million in the prior year.

Salaries & Benefits

As in all service businesses, employee compensation is the School's largest expense, comprising nearly 50 percent of total operating costs. Salaries and benefits expense increased 10 percent in fiscal 2012 to \$241 million, from \$219 million in the prior year. In addition to modest increases in salary rates and an uptick in benefits costs, spending grew as a result of growth in the size of the faculty and administrative staff.

The total number of faculty at HBS, as measured in full-time equivalents (FTEs), can rise or fall in any given year as a result of retirements, departures, and fluctuations in recruiting activity. Fiscal 2011 was a successful year for faculty recruiting at the School, as 14 outstanding candidates accepted positions as assistant professor. Net of retirements and departures, in fiscal 2012 the size of the faculty grew by 15 FTEs to 232, from 217 FTEs a year earlier.

Anticipating a year of strategic change, the School's fiscal 2012 financial plan included substantial growth in administrative staff. HBS was successful in hiring for the majority of these positions, which focused on supporting FIELD and improving business performance at HBP and Executive Education, among other initiatives. As a result, the School's total administrative staff budget grew to 1,198 FTEs in fiscal 2012, from 1,138 in the prior year.

Fellowships

HBS categorizes fellowships, or financial aid, as an expense line item on the Statement of Activity and Cash Flows. The prospect of joining the workforce with high levels of education debt can deter strong MBA candidates from applying to HBS and restrict their career choices upon graduation. This is particularly true for younger students, those from outside the United States, and students whose early career paths have not enabled them to reduce their undergraduate loans.

Consequently, one of the School's long-standing goals is to assist students in mini-

mizing their debt at graduation by ensuring that fellowship support at least keeps pace with tuition and fees. Total fellowship expense for fiscal 2012, including assistance for Doctoral program candidates and a limited number of Executive Education participants, as well as for MBA students, increased by \$1 million from fiscal 2011 to \$37 million. Funding for fellowships comes primarily from restricted endowment and current use giving by HBS alumni and friends.

Publishing & Printing

Publishing and printing expense includes HBP production costs as well as a smaller amount of spending to produce the School's other printed materials and publications. HBP's continuing growth in a fast-changing and highly competitive publishing environment reflects, in part, the success of the group's long-term program of strategic investment in digital infrastructure and content. Driven by these investments and by the larger scale of HBP's operations, the School's total publishing and printing expenses for fiscal 2012 increased by \$4 million from fiscal 2011 to \$59 million.

Space & Occupancy

The HBS campus includes 34 buildings encompassing nearly 1.7 million square feet of occupied space. Space and occupancy expense includes costs related to maintaining and operating the School's buildings and campus infrastructure. In addition, facilities improvement and renovation costs that do not qualify as capital expenses are generally categorized as space and occupancy.

Also included in space and occupancy are expenses related to dining facilities and other campus services, as well as costs associated with leased space that houses HBP's operations and the School's global research offices. In addition, residence expenses for Executive Education participants are reported under this category. Driven in part by the new programming at Batten Hall, total space and occupancy expenses for fiscal 2012 grew by \$3 million from the prior year to \$47 million.

Professional Services

Professional services expense increased by

\$4 million from fiscal 2011 to \$35 million. This increase was primarily driven by spending for external resources related to I.T. upgrades in several of the School's programs and functions. These included, among others, development of an online platform, resources, and tools to support FIELD, as well as completion of a multiyear project to develop a new faculty research platform and website. The increase in professional services expense also reflected new initiatives to drive strategic growth in HBP and Executive Education.

Supplies & Equipment and Other Expenses

Fiscal 2012 spending in the Other Expenses category, which includes items such as travel and catering, increased by \$13 million, to \$52 million. This majority of this increase was driven by international travel costs for students in FIELD and for faculty involved in global research, as well as the growing range of Executive Education programs offered outside the United States. Supplies and Equipment expense was flat with the prior year at \$10 million.

University Assessments

University assessments cover essential services provided to HBS by the University, including payroll and benefits administration, processing of accounts receivable and payable, and legal services. The amount charged to HBS in any given year is primarily calculated as a percent of the School's total expenses on a two-year lagged basis. As expected, the School's expense in fiscal 2012 for these assessments increased by \$2 million from the prior year to \$17 million.

Debt Service

HBS finances major capital projects with a mix of four sources of funding. The most important sources are gifts, internally generated cash, and unrestricted reserves. The School also makes strategic use of debt financed through the University as a means of optimizing its capital structure. Relying on the University as its banker provides HBS, as well as the other Harvard schools, with access to debt on a triple-A-rated tax-exempt basis. The School borrows only to finance qualified capital projects, carefully considering the interest rate environment,

I.T. Investment (in millions)

FY 12	\$ 54
FY 11	50
FY 10	40
FY 09	55
FY 08	46

expectations for the performance of the Harvard endowment, and the availability of University debt.

Reflecting this cautious approach, the School's balance sheet historically has been only modestly leveraged, and debt leverage remained low in fiscal 2012. The School increased its capital investments during the year to \$51 million, from \$34 million in the prior year. As in fiscal 2011, this growth was primarily funded by cash from operations, and there were no new borrowings. HBS paid down \$4 million in building debt in fiscal 2012, compared with \$9 million a year earlier. As a result, the School's year-end fiscal 2012 building debt-to-asset ratio remained essentially level at 3.0 percent, compared with 3.1 percent in the prior year. Other University debt—mainly consisting of repayment obligations to the University for mortgage loans made by HBS as a faculty recruiting incentive—decreased by \$5 million from fiscal 2011 to \$23 million.

The School's debt service expense consists of interest payments to the University and is primarily covered by using cash from operations. For fiscal 2012, debt service expense decreased by \$1 million from the prior year to \$6 million. As in fiscal 2011, this expense was mainly associated with borrowings to finance prior years' campus expansion. The interest portion of the School's debt service amounted to slightly more than 1 percent of total operating expenses in fiscal 2012.

Cash Before Capital Activities

The School's cash from operations decreased in fiscal 2012 by \$11 million from the prior year to \$42 million. As in fiscal 2011, this cash was largely generated by margin contributions from Executive Education and HBP, as well as the HBS community's generous giving to the School. In

Building Debt Outstanding (in millions)

FY 12	\$ 99
FY 11	103
FY 10	112
FY 09	119
FY 08	121

addition, use of restricted current use gifts, as well as cash from prior years' endowment gifts or appreciation, contributed \$24 million to the School's cash flow in fiscal 2012, compared with \$18 million in fiscal 2011. The net result was a decrease in cash before capital activities of \$5 million, or 7 percent, to \$66 million, from \$71 million in fiscal 2011.

Net Capital Expenses

In accordance with the School's long-term campus plan, the most recent phase of significant capital investment at HBS concluded several years ago. As noted above, the School's fiscal 2012 capital expenses increased by \$17 million from the prior year to \$51 million. This growth was attributable to the initial construction of Tata Hall and completion of the renovations at Batten Hall, which houses the Harvard i-lab and provides HBS with classroom space for the FIELD course. The School's fiscal 2012 capital investments in these projects totaled \$25 million and \$9 million, respectively. In addition, HBS continued to invest in opportunistic projects focused on the renewal and maintenance of buildings, infrastructure, and I.T. systems across the campus.

Net Debt & Other Expenses

Because gifts, internally generated cash, and unrestricted reserves have been available and sufficient to finance capital activities, fiscal 2012 marked the School's fourth consecutive year with no new borrowings. Debt principal payments decreased to \$6 million, from \$9 million in fiscal 2011.

Other non-reserve activity in fiscal 2012 was positive \$12 million, compared to negative \$51 million in the prior year. This year's amount reflected accounting adjustments related to the consolidation of HBP's financial statements with those of the School, and to capital construction projects under way during the year. Together

with the School's fiscal 2012 debt principal payments, the \$12 million in other non-reserve activity resulted in an increase of \$8 million in Net Debt and Other for the year.

This compares to a decrease of \$60 million in Net Debt & Other in fiscal 2011, which was largely driven by the second of two consecutive annual transfers of \$50 million to the School's endowment reserve. HBS accesses this reserve selectively when necessary in order to finance capital investments.

In contrast to fiscal years 2011 and 2010 when construction spending was relatively low, the School did not transfer funds to the endowment reserve in fiscal 2012. This decision was made in light of the increased campus construction activity planned for the next several years, as well as the uncertainties surrounding the capital markets. The balance of the School's endowment reserve at the end of fiscal 2012 was \$218 million, down from \$228 million a year earlier.

Ending Balance, Unrestricted Reserves

Together with a mix of internally generated cash, gifts, and debt, HBS relies on unrestricted reserves to finance major campus expansion projects and to capitalize on unforeseen strategic opportunities. More than 50 percent of the School's revenues come from Executive Education and HBP—business units that are highly sensitive to the economy. Consequently, maintaining an ample balance of unrestricted reserves outside the endowment is crucial in providing HBS with the liquidity necessary to ensure the consistent execution of its mission through economic cycles over the long term.

Reflecting the School's continued healthy cash from operations, fiscal 2012 was a successful year in this regard. Driven by the School's operating surplus, together with decapitalization of certain endowment gifts and use of restricted current use gifts, unrestricted reserves increased by \$40 million from fiscal 2011, and HBS concluded fiscal 2012 with a strong year-end unrestricted reserves balance of \$119 million.



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