

# ANNUAL 2011



innovation



intellectual ambition



internationalization



inclusion



integration





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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,

I am pleased to share with you the 2011 Annual Report for Harvard Business School. Our aim in assembling this document each year is twofold. The first and foremost objective is to provide you with a detailed look at our financials, including our revenues and expenses and an overview of the School's economic model. This past year, as you'll see, the School's recovery from the 2008 recession continued, with both our Publishing and Executive Education groups doing better than expected in sectors that continue to face challenges.

An equally important objective for the report is to give you a window into, and feel for, the key areas of the School—such as, for example, our educational programs, faculty and research, and new initiatives—and a sense of how we are making progress toward our strategic objectives.

This past year, an important focus for us was laying the groundwork for the five priorities we identified for the School. That meant, for instance, designing and building out the ten classrooms (we're calling them hives to reflect the nature of work they'll enable) in Batten Hall at 125 Western Avenue to support the emerging ideas for innovation in the MBA Program. It also meant preparing to launch the Harvard Innovation Lab, a new space to enhance and foster the entrepreneurial energy of students throughout Harvard University.

At the same time, we did not lose focus on our core activities. Beneath the data presented here are thoughtful initiatives to enhance the foundational work of the School—whether attracting and retaining a diverse and talented faculty and staff, bringing to campus outstanding students and participants, redefining the library of

the 21st century, investing in our technology infrastructure, building out our Publishing platform, or thinking carefully about how our campus can continue to enrich the learning experience and culture of our community.

It is a remarkable time to be at Harvard Business School. Thank you for your interest in and support of our efforts.

**NITIN NOHRIA**  
DEAN OF THE FACULTY

# INNOVATION



**MBA PROGRAM  
INTRODUCING FIELD**

**EXECUTIVE EDUCATION  
BREAKING NEW GROUND**

**DOCTORAL PROGRAMS  
IMMERSING STUDENTS IN CHINESE BUSINESS**

## **MBA PROGRAM INTRODUCING FIELD**

Moving with both deliberation and speed, in 2011 HBS planned and launched a major innovation in the MBA curriculum: Field Immersion Experiences for Leadership Development, or FIELD. A new yearlong course in the Required Curriculum, FIELD builds on the case method and the 10 RC core courses, bridging the gap between knowing and doing. Taught in three modules (see sidebar), it focuses on experiential, immersive, and field-based small-group experiences to push MBA learning beyond management principles to inspired, active leadership.

### **Design Process & Team**

The faculty voted to approve FIELD in January 2011 and it launched eight months later. The intense months of preparation involved the construction of specialized classrooms and the creation of a range of custom software tools, such as one to capture peer feedback. HBS was able to develop such a complex course so quickly because it drew on the expertise of faculty members from across the School. Under the direction of Youngme Moon, senior associate dean and chair of the MBA Program, lead designers, who also serve as FIELD faculty, were:

#### **FIELD 1**

Frances Frei (*Technology & Operations Management; Chair, FIELD*), Joshua Margolis (*Organizational Behavior*), Tony Mayo (*Organizational Behavior*)

#### **FIELD 2**

Rawi Abdelal (*Business, Government & the International Economy*), Fritz Foley (*Finance*), Felix Oberholzer-Gee (*Strategy*)

#### **FIELD 3**

Joshua Coval (*Finance*), Alan MacCormack (*Technology & Operations Management*), Clayton Rose (*General Management*)

Andy Zelleke (*General Management*) later joined the teaching group.

## **EACH MODULE OF FIELD CULTIVATES A DIFFERENT TYPE OF INTELLIGENCE:**

### **Leadership Intelligence**

FIELD 1 engages small teams of students in interactive workshops that reshape how they think, act, and see themselves. Through feedback and self-reflection, students deepen their emotional intelligence and develop a growing awareness of their own leadership styles.

### **Global Intelligence**

FIELD 2 immerses student teams in emerging markets, requiring them to create a new product or service concept for one of 140 global partner organizations in 11 countries.

### **Integrative Intelligence**

FIELD 3 brings the entire first-year experience together by challenging students to synthesize the knowledge, skills, and tools acquired in the RC with real microbusinesses that teams design and launch.

PODS

PLENARY



As a new kind of course,

## FIELD

demands a new kind of classroom. Ten flexible, circular learning spaces (called "hives") have been constructed to facilitate team learning.



## EXECUTIVE EDUCATION BREAKING NEW GROUND



An intense learning experience on a planned residential campus is a fundamental part of an HBS education—including that of business leaders who gather from around the world to take advantage of Executive Education programs. During fiscal 2011, the School planned a new state-of-the-art building for the Executive Education quad at the northeast corner of the campus.

The design of Tata Hall incorporates the best insights and practices in management learning, and it represents the School's investment in longer-form programs for senior executives, such as the eight-week Advanced Management Program. The new 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, a 1975 graduate of AMP. Tata was honored at the December 2011 groundbreaking ceremony for the building, which is scheduled for completion in December 2013.

Tata Hall will be arc-shaped, rising seven stories, including two with glass walls to capture views of the Charles River. It will enable Executive Education to house an additional 180 program participants. The building also features a welcoming entryway, two advanced classrooms, and comfortable common spaces that are so vital to the exchange of ideas among participants.

## 8 Open enrollment programs were launched in 2011, including:

### BUILDING BUSINESSES IN EMERGING MARKETS

Research-based guidance for companies in many industries looking to tap the vast potential of emerging markets—with the realization that they cannot succeed by simply transplanting business models, products, and services developed for mature economies.

### LEADING COMPLEX CAPITAL PROJECTS

Aimed at providing executives of businesses and government agencies with the leadership expertise, broad vision, and strategic skills to successfully oversee complex development initiatives—whether skyscrapers, highways, or information technology systems.





## DOCTORAL PROGRAMS

### IMMERSING STUDENTS IN CHINESE BUSINESS



January Term immersion programs have become a key component of the MBA curriculum, and they are now institutionalized in FIELD. But these rich, field-based learning experiences can be equally valuable for doctoral students, particularly when they focus on case research and writing.

In January 2011, doctoral students Sen Chai and Howard Yu joined faculty members Vicki Sato and Willy Shih and seven MBA students for a 15-day research trip investigating science and technology companies in China, which was generously supported by the President's January Innovation Fund for Faculty. The immersion, *Assembling Global Innovation Strategies*, provided the basis for six cases coauthored by the faculty members and students.

Sato and Shih organized the immersion as though it were a laboratory course, offering a much deeper and more substantive exposure than a typical company visit and designed to yield a network of connections into multinational science-based companies. The case research served as a means to get students deeply involved in the questions with which senior managers are constantly grappling. To make the most of limited time and to facilitate research, the companies were clustered in or near Shanghai's Zhangjiang Hi-Tech Park. The trip began with plenary visits to companies, followed by in-depth interviewing sessions for case development.

**“Overall it was a great learning experience. I gained a topical understanding of global innovation processes from a Chinese viewpoint and also exposure to the teaching aspects that are so important to a doctoral student.”**

#### SEN CHAI

Doctoral student studying scientific breakthroughs, particularly at the intersection of innovation and social networks

**“Interacting with business executives and officers from governmental agencies, I was confronted with an environment that did not fit well with many dominant descriptions of extant theories. Such an exposure is essential to stimulate one's thinking in generating new theories.”**

#### HOWARD YU

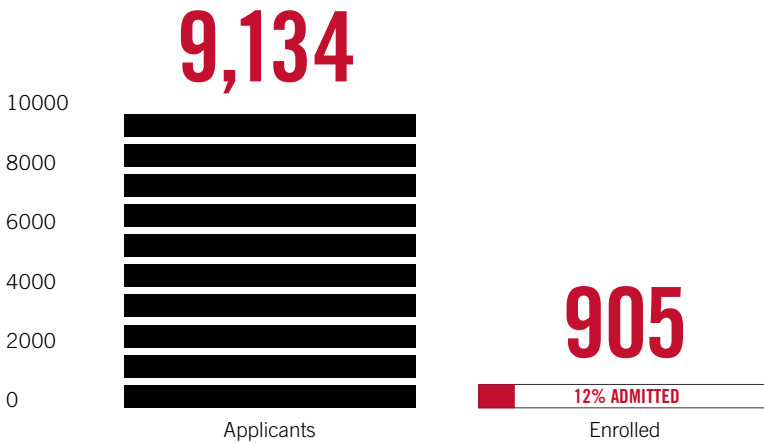
Doctoral student focusing on the management of strategic change in large, complex organizations

#### Companies Visited

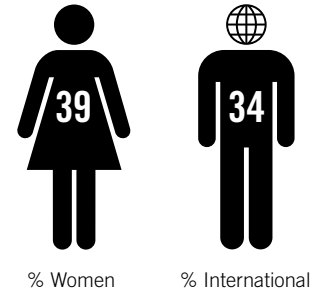
China Novartis Institutes for BioMedical Research; GE Aviation; GE China Technology Center; IBM China Development Lab; PerkinElmer; Semiconductor Manufacturing International Corporation, Ltd.; Shanghai Institutes for Biological Sciences; WuXi AppTec

# MBA PROGRAM UPDATE

## CLASS OF 2013



## STUDENT DEMOGRAPHICS

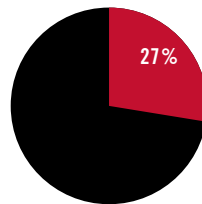


**23%** U.S. ethnic minority

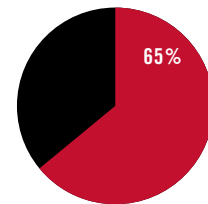
## MOST FREQUENTLY REPORTED YEARS OF WORK EXPERIENCE



## INTERNATIONAL CASES DISCUSSED



## STUDENTS RECEIVING FINANCIAL AID



## UNDERGRADUATE MAJORS

**42%** Business / Economics

**36%** Engineering / Natural Sciences / Technical

**21%** Humanities / Social Sciences

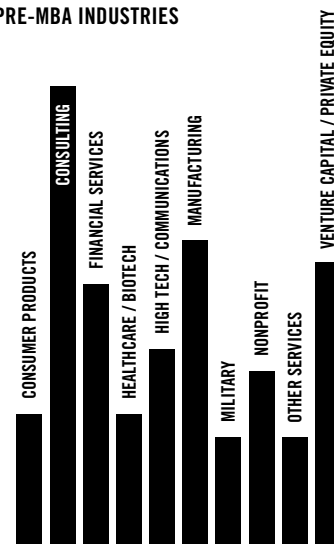
## AVERAGE GPA

**3.66**

## UNDERGRADUATE INSTITUTIONS REPRESENTED



## PRE-MBA INDUSTRIES



# DOCTORAL PROGRAMS

## UPDATE

### WYSS AWARDS

#### FOR EXCELLENCE IN DOCTORAL RESEARCH

**Claudine Madras Gartenberg**  
*DBA, Strategy*

Dissertation:  
"Essays on Firm Scope and Incentives: 1) Related Scope and Moral Hazard within Firms 2) Tempted by Scope? Homebuilder Mortgage Affiliates, Lending Quality and the Housing Crisis 3) Too Much Control: Vertical Integration, Managerial Monitoring and Firm Failure"

Now on the faculty of Stern School of Business, New York University

**Michael Dickstein**  
*Ph.D., Business Economics*

Dissertation:  
"Essays on the Industrial Organization of Health Care: 1) Physician vs. Patient Incentives in Prescription Drug Choice 2) Efficient Provision of Experience Goods: Evidence from Antidepressant Choice 3) Estimating Single Agent Dynamic Models Using Moment Inequalities"

Now on the faculty of the Department of Economics, Stanford University

**Lalin Anik**  
*DBA, Marketing*

Dissertation:  
"Experiments in Social Networks"

Now a postdoctoral fellow at the Fuqua School of Business, Duke University

*Named in honor of Hansjörg Wyss (MBA '65)*

### MARTIN AWARDS

#### FOR EXCELLENCE IN BUSINESS ECONOMICS

**Judd Kessler**  
*Ph.D., Business Economics*

Dissertation:  
"Social Forces and Public Good Provision"  
Now on the faculty of The Wharton School, University of Pennsylvania

**Samuel Hanson**  
*Ph.D., Business Economics*

Dissertation:  
"Essays in Financial Economics: 1) Share Issuance and Factor Timing, 2) Issuer Quality and Corporate Bond Returns, 3) Are There Too Many Safe Securities? Securitization and the Incentives for Information Production"

Now on the faculty of Harvard Business School

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

### TOP FACULTY MENTORS

For the fourth 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 **Al Roth** and the junior faculty award to **Dennis Campbell**.

### ADMISSIONS, FY11

**26** INCOMING STUDENTS



**830** APPLICATIONS

### TOTAL ENROLLMENT

**132**

### STUDENT DEMOGRAPHICS



% Women



% International

### PLACED AT TOP 30 SCHOOLS, 2011

**60%**

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# INTELLECTUAL AMBITION



FACULTY  
CREATING KNOWLEDGE FOR WIDESPREAD IMPACT

## FACULTY CREATING KNOWLEDGE FOR WIDESPREAD IMPACT

Throughout the School's history, a hallmark of HBS faculty research has been its power in practice. Increasingly, this impact extends beyond the management of firms to the large-scale, cross-disciplinary issues that beset society. The four presenters at the 2011 Faculty Symposium represented this broad scope: Nava Ashraf reported on her field experiments in Zambia concerning the usage gap in global health technologies; Ranjay Gulati described his work on redesigning organizational architecture to foster collaboration and innovation; David Moss charted the progress of the Tobin Project, a nonprofit he formed in 2005 to stimulate research on vital social problems; and Peter Tufano (now Dean of Saïd Business School, University of Oxford) spoke about how he aligned his teaching, research, and social entrepreneurship around the issue of consumer finance.

Transformational, intellectually ambitious research of this kind at HBS takes different forms, and it often generates multidisciplinary projects to carry out an evolving agenda and make a substantive difference in the world.

### Periodic, Intensive Research to Focus Attention

HBS is distinctively able to mobilize research efforts and disseminate the results to address vital issues quickly. In spring 2011, the School launched the U.S. Competitiveness Project, aimed at developing new knowledge to improve the success of firms operating in the United States in the global economy while raising living standards in this country. This research effort is informed by a global survey of nearly 10,000 alumni and by a November 2011 summit of leading academics, practitioners, and policy makers. The survey results and early research will be available in a special issue of *Harvard Business Review* in spring 2012, and a comprehensive public engagement effort is planned. This project provides a promising model for confronting systemic challenges.

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## SUSTAINED, HBS-WIDE INITIATIVES

HBS currently sponsors five long-term, institutionalized research initiatives that have infused themselves throughout the life of the School. The initiatives are defined by robust, cross-disciplinary research agendas that lead to publications and conferences to broaden the impact of the findings. Beginning with the Social Enterprise Initiative in 1993, the initiatives have been established as their focal issues have come to the fore in business and society:

- 1993: Social Enterprise**
- 1999: Leadership**
- 2003: Arthur Rock Center for Entrepreneurship**
- 2005: Healthcare**
- 2011: Business & Environment**



## BUSINESS & ENVIRONMENT INITIATIVE

The newest HBS initiative has been a catalyst for both thought and action regarding business and the environment:

**MBA curriculum:** 13 cases used in the Required Curriculum, and an equal number of courses in the Elective Curriculum

**Alumni conference:** "Investing in Cities of the 21st Century"

**Club memberships:** 190 MBA students in Energy & Environment Club; 350 members of Green Business Alumni Association

**Faculty research, 2005–10:**

**89** Cases

**23** Book Chapters

**41** Articles

# NEW FACULTY

FOURTEEN NEW TENURE-TRACK ASSISTANT PROFESSORS JOINED HBS IN 2011,  
THE LARGEST GROUP IN RECENT YEARS.



## ROW 1

**David Drake**  
Technology & Operations Management

**Joan Farre-Mensa**  
Entrepreneurial Management

**Ian Gow**  
Accounting & Management

**Samuel Hanson**  
Finance

## ROW 2

**Leslie John**  
Marketing

**Uma Karmarkar**  
Marketing

**Michael Luca**  
Negotiation, Organizations & Markets

**Hong Luo**  
Strategy

## ROW 3

**Gautam Mukunda**  
Organizational Behavior

**Dina Pomeranz**  
Entrepreneurial Management

**Sophus Reinert**  
Business, Government & the International  
Economy

**Meg Rithmire**  
Business, Government & the International  
Economy

## ROW 4

**Adi Sunderam**  
Finance

**Nikolaos Trichakis**  
Technology & Operations Management

# FACULTY UPDATE

## FACULTY (FULL-TIME EQUIVALENT)



% Women



% Born outside U.S.



**217** Total

**14** New tenure track

**12%** Have administrative responsibilities

## TEACHING MATERIALS



**635** Total

**265** Cases

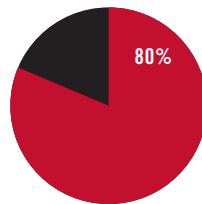
**370**

Additional course development materials

## RESEARCH CONFERENCES



## BUSINESS SCHOOLS USING HBS CASES



## INVESTMENT IN RESEARCH

**\$97m**

## RESEARCH ARTICLES

**150**

## BOOKS



## BOOK CHAPTERS

**33**

## WORKING PAPERS

**173**

# INTERNATIONALIZATION



**FACULTY**  
INCREASING EXPOSURE TO CRITICAL REGIONS

**RESEARCH**  
DEVELOPING INTERNATIONAL CASES

## FACULTY INCREASING EXPOSURE TO CRITICAL REGIONS

As part of an ongoing commitment to faculty development, in 2011 HBS undertook the first of a series of intensive educational and cultural immersions—part of a plan to send faculty members to critical regions of the world, guided by peers with expert knowledge of each area. Warren McFarlan led the initial immersion—to China—in June: over 10 days, a dozen faculty visited 7 cities (see sidebar) and met with more than 100 business leaders, government officials, and fellow academics. Industries represented spanned banking and financial services, textiles and garment manufacturing, software, energy, transportation, beverages, and industrial products.

Combining meetings, tours, and panel and roundtable discussions with social events, the immersion offered faculty a comprehensive learning experience designed to inspire new interests and research. Faculty immersions are planned for China and Israel in 2012.

### Companies & Organizations Visited

Beijing-Shanghai High-Speed Railway Co., China Entrepreneur Club, China Merchants Bank, China Securities Regulatory Commission, China Shenhua Energy, Clear Suppliers Co., Coca-Cola Beverages Ltd., CreditEase, Esquel Group and Esquel factory, Harvard Club of Beijing, HBS Association of Hong Kong, HBS Club of Shanghai, Kingdee, Li & Fung Ltd., Sealed Air, Suzhou Industrial Park Administrative Commission, Suzhou Logistics Center, The People's Bank of China, and Tsinghua University School of Economics and Management. Additionally, the group toured the Great Wall and Forbidden City in Beijing and the Humble Administrator's Garden in Suzhou and attended dinners hosted by HBS alumni William Fung (MBA '72), group managing director of Li & Fung, and Margie Yang (MBA '76), chairman of Esquel Group.

## FACULTY IMMERSION ITINERARY

- ■ HONG KONG (2 days)
- SHENZHEN
- GAOMING
- ■ BEIJING
- SUZHOU
- ■ SHANGHAI & CHANGZHOU





## RESEARCH

### DEVELOPING INTERNATIONAL CASES



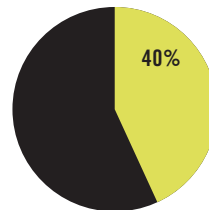
Backed by the School's network of global research centers and augmented research support, the HBS faculty is focusing more closely on international questions—with remarkable effect. In 2011, for the first time, more than 40 percent of all research and more than 50 percent of all new cases dealt with global issues and settings. Two cases published during the fiscal year illustrate the breadth and scope of this research.

#### Chile's Copper Surplus: The Road Not Taken (A)

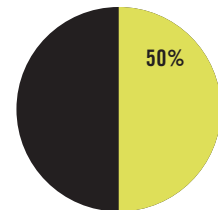
Laura Alfaro and Dante Roscini (with former research associate Renee Kim) investigated Chile's fiscal policy in 2008, when Finance Minister Andrés Velasco was under mounting criticism. Chile, the world's largest copper producer, had benefited from the recent tripling of copper prices, and the country's largest copper producer was a state-owned enterprise. Velasco had chosen to save the bulk of the revenues in two stabilization funds, which together exceeded 20 percent of Chile's GDP by August 2008. With one of the most unequal wealth distributions in the world, Chile was experiencing stagnant productivity and a long-term slowdown in economic growth. Against this backdrop, some critics wanted to use the funds to ameliorate social and economic conditions. What should Velasco do?

#### Vereinigung Hamburger Schiffsmakler und Schiffsbagenten e.V. (VHSS): Valuing Ships

Benjamin Esty and Albert Sheen studied the dramatic crash of the global shipping industry in late 2008. Ship charter rates plummeted by as much as 90 percent, causing prices for used ships to fall by as much as 80 percent. In response to the crisis, VHSS, the German shipbrokers' association, proposed that ships be valued using discounted cash flow analysis—to determine a long-term asset value—rather than market prices from comparable transactions. How could VHSS convince ship owners, appraisers, and bankers to adopt this new valuation methodology, and banker regulators and auditing firms to approve its use?



Overall research dealing with global issues & settings



New cases dealing with global issues & settings

# HARVARD BUSINESS PUBLISHING UPDATE

## CASES SOLD

9,763,811

## E-LEARNING RENEWAL RATE



## BOOKS

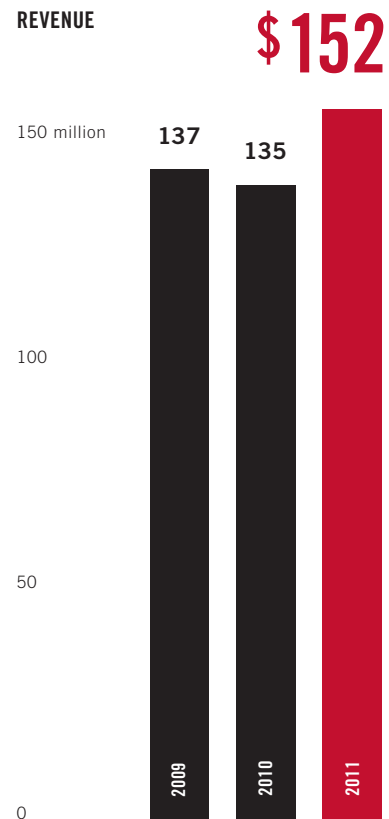


## HARVARD BUSINESS REVIEW

240,808 Circulation 69% Renewal rate

3,098,194 Reprints sold

## REVENUE

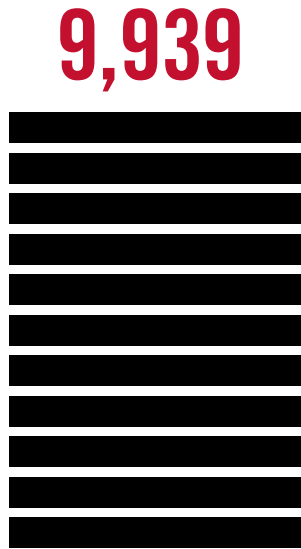


## HARVARD MANAGEMENTOR

44 Modules in 9 languages

# EXECUTIVE EDUCATION UPDATE

## PARTICIPANTS



## NEW PROGRAMS

22

## COURSES TAUGHT BY FULL-TIME FACULTY

100%

## PARTICIPANT DEMOGRAPHICS

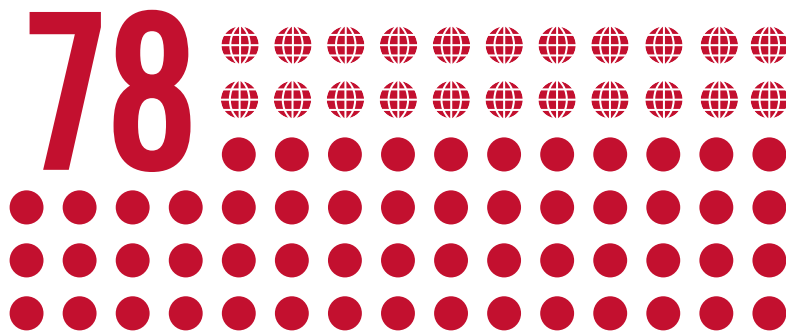


% Women



% International

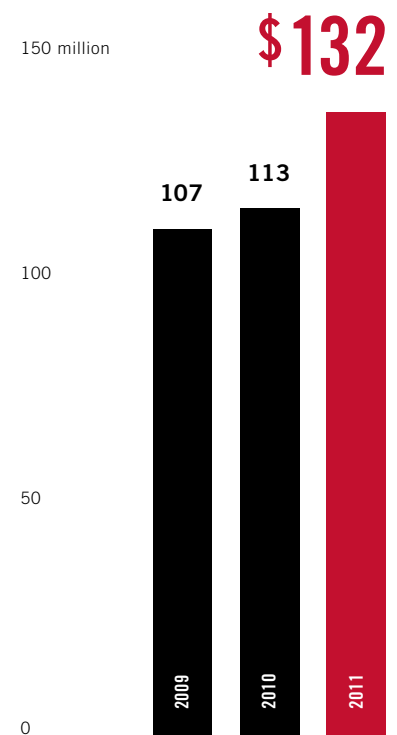
## OPEN-ENROLLMENT PROGRAMS



## CUSTOM PROGRAMS



## REVENUE



# INCLUSION



**CULTURE & COMMUNITY**  
**CULTIVATING AN ENVIRONMENT WHERE EVERYONE**  
**CAN THRIVE**

## **CULTURE & COMMUNITY**

### **CULTIVATING AN ENVIRONMENT WHERE EVERYONE CAN THRIVE**

For HBS to deliver on its mission requires a fully engaged community, in which the environment enables all members to do their best work and to bring out the best in others. Committed to bringing issues to light so as to facilitate ongoing improvement, in fiscal 2011 the School launched the Culture and Community Initiative (CCI). This multiyear project is designed to analyze and evaluate the community's culture in order to identify areas of opportunity and steps that might be taken to ensure that all its members can thrive.

The process began with a faculty study, and it has involved surveys, dozens of one-on-one interviews, and analysis of current and historical data on such areas as recruiting, course evaluations, and promotion rates. In the coming phases, students, staff, and alumni experiences will be studied as well.

#### **Dimensions for Study**

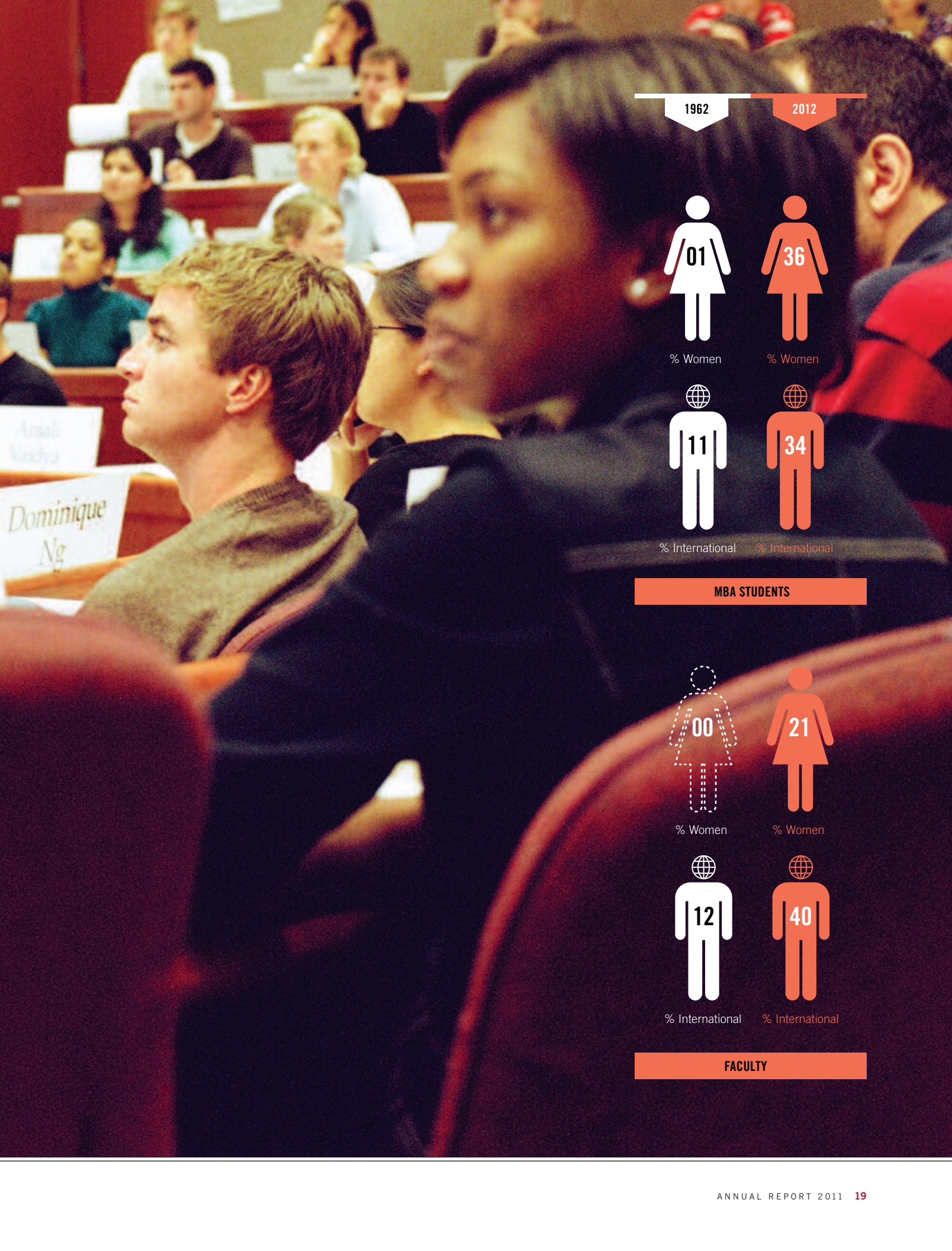
The Culture and Community Initiative is using gender as an initial lens for its work, building on a range of efforts underway at the School. One example is a recent study by the Women's Student Association that identified gender-based gaps in both honors awarded and satisfaction with the MBA experience (with significant improvement evident since). In fall 2010, the annual faculty colloquium sponsored by the Christensen Center for Teaching and Learning examined how gender affects education at HBS, allowing faculty members to understand and react to their own biases. The School plans to use the skills and processes developed to explore the effects of other factors—such as race, culture, sexual orientation, or being a nonnative English speaker—in this community.

## **ECONOMIC INCLUSION**

Creating an inclusive culture means providing support for the best students regardless of their economic means. Today, nearly half of all MBA students receive fellowship support. Over the last five years, the average fellowship per recipient has grown from approximately \$18,000 to nearly \$27,000.

# \$27,000

**Average MBA Fellowship**



1962

2012



% Women



% Women



% International



% International

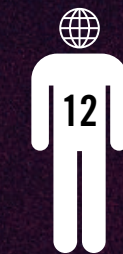
**MBA STUDENTS**



% Women



% Women



% International



% International

**FACULTY**

# INTEGRATION



ACROSS THE UNIVERSITY  
HARVARD INNOVATION LAB

HARVARD UNDERGRADUATES  
PROGRAM FOR RESEARCH IN MARKETS & ORGANIZATIONS

## ACROSS THE UNIVERSITY HARVARD INNOVATION LAB

The big “HI” that beams down from Batten Hall at 125 Western Avenue signals something entirely new—the Harvard Innovation Lab, a highly visible symbol of the School’s commitment to fostering collaboration across the University, particularly in the areas of innovation and entrepreneurship. The i-lab, which occupies the building’s first floor, was planned and constructed in early 2011. (The two upper floors house the MBA Program hives and support FIELD and field-based learning.) The facility is a resource for all of Harvard, where students and faculty from across the University meet for classes, events, and the hatching of entrepreneurial ideas.

HBS Dean Nitin Nohria chairs the i-lab steering committee, whose members include Harvard Provost Alan Garber and University deans and faculty leaders. Professor Joe Lassiter, a specialist in high-potential ventures with deep management experience in the technology sector, is the faculty chair; former faculty member Peter Tufano served as the founding co-chair. Director Gordon Jones has worked in businesses ranging from start-ups to the Fortune 500, and he has mentored and taught many future entrepreneurs.

## HARVARD UNDERGRADUATES PROGRAM FOR RESEARCH IN MARKETS & ORGANIZATIONS (PRIMO)

PRIMO debuted in summer 2011, bringing more than a dozen highly motivated Harvard undergraduates to HBS to experience business research firsthand. The 10-week program pairs the PRIMO Fellows with faculty members to join in their ongoing research in fields ranging from behavioral finance to organizational behavior. The Fellows also interact with faculty in seminars designed to enhance their research skills and give them personal insights into academic careers. Living at the College with students in other Harvard undergraduate research programs, the Fellows participate in evening programming that features prominent researchers and scientists.

## INSIDE THE INNOVATION LAB

# 30,000

square feet of highly configurable space

**Classroom:** seats 80 at tables, 150 with chairs alone

**Workspace:** for up to 200, with rolling tables and whiteboards

**Conference rooms:** 24 varying layouts, video conferencing

**Workshop:** power tools, prototyping materials, 3-D printer

**Student social space:** gaming zone, kitchen, basketball court

**Community lobby:** open to the public as well as the Harvard community; space for informal gatherings, lectures, and events with entrepreneurs and innovators



# ALUMNI UPDATE

## ALUMNI

**78,000** in **167** countries

## ALUMNI VOLUNTEERS

**4,000+**

## ATTENDING REUNIONS

**3,572**

MBA & Executive Education alumni

## PRO BONO CONSULTING

**\$10 m**

Provided by HBS club members

## CLASS NOTES

**1,776**

Pages printed

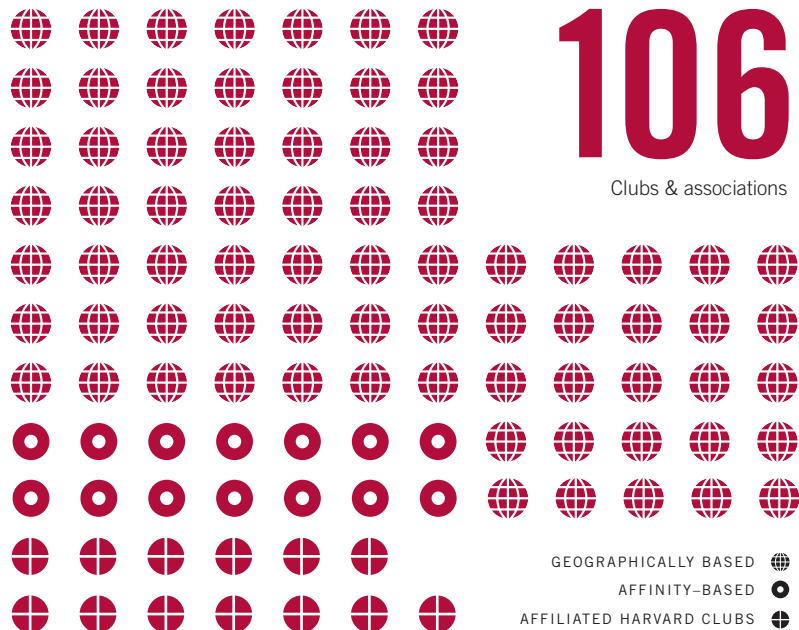
## ALUMNI CLUB EVENTS

**1,100**

## FACULTY VISITS TO ALUMNI CLUBS

**50**

## ALUMNI CLUBS





# 5-YEAR SUMMARY

FOR THE FISCAL YEAR ENDED JUNE 30,

<b>Financial Data</b> (in millions)	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Revenues	<b>\$ 509</b>	\$ 467	\$ 472	\$ 451	\$ 405
Expenses	<b>456</b>	415	438	423	375
Cash from Operations	<b>53</b>	52	34	28	30
Capital Investments	<b>34</b>	14	19	40	20
Building Debt Outstanding	<b>103</b>	112	119	121	108
Unrestricted Reserves	<b>79</b>	99	96	79	65
Endowment	<b>2,779</b>	2,311	2,117	2,971	2,821
Total Assets	<b>\$ 3,528</b>	\$ 3,087	\$ 2,826	\$ 3,684	\$ 3,500

## MBA Program

Applications	<b>9,134</b>	9,524	9,093	8,661	7,438
Percent Admitted	<b>12%</b>	11%	12%	12%	14%
Yield	<b>90%</b>	89%	89%	91%	89%
Enrollment	<b>1,860</b>	1,864	1,809	1,796	1,806
Tuition	<b>\$ 48,600</b>	\$ 46,150	\$ 43,800	\$ 41,900	\$ 39,600
Average Fellowship Aid per Student	<b>\$ 26,745</b>	\$ 23,989	\$ 24,393	\$ 21,591	\$ 17,605

## Doctoral Programs

Applications	<b>830</b>	931	798	595	694
Percent Admitted	<b>5%</b>	4%	4%	6%	5%
Yield	<b>68%</b>	69%	69%	81%	57%
Enrollment	<b>132</b>	125	120	105	103

## Executive Education

Enrollment	<b>9,939</b>	8,670	8,291	9,345	9,281
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## Faculty

Faculty Positions (full-time equivalents)	<b>217</b>	218	228	219	206
Teaching Materials	<b>635</b>	538	608	647	602
Research Articles	<b>150</b>	155	146	152	145
Books	<b>18</b>	29	20	24	24

## Staff

Staff Positions (full-time equivalents)	<b>1,138</b>	1,087	1,187	1,146	1,109
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## Publishing

Cases Sold	<b>9,764,000</b>	9,668,000	8,334,000	8,240,000	7,785,000
Harvard Business Press Books Sold	<b>1,665,000</b>	1,769,000	1,478,000	2,025,000	1,882,000
HBR Circulation	<b>241,000</b>	236,000	237,000	246,000	248,000
HBR Reprints Sold	<b>3,098,000</b>	2,946,000	2,863,000	3,123,000	3,061,000

# FROM THE

# CHIEF FINANCIAL OFFICER

Harvard Business School's financial performance for fiscal 2011 was stronger than we expected. We completed the School's financial plan for the year in the spring of 2010, forecasting that continued recovery from the recession and healthier conditions in the corporate sector would lead to modest levels of growth in the School's Publishing and Executive Education businesses. Given the impending arrival of the School's 10th dean, we anticipated that HBS would be heading in new strategic directions, with the related initial investments largely being funded by increased margin contributions from these businesses.

Although U.S. GDP growth ultimately proved to be weak and inconsistent, Executive Education and Harvard Business Publishing (HBP) outperformed both the fiscal 2011 budget and fiscal 2010 actual results on the top line. Fixed and variable costs in both businesses, meanwhile, remained well controlled, and the School's total expenses for fiscal 2011 came in within 1 percent of budget. As a result, HBS continued to generate strong cash from operations during the year. This cash flow enabled the School to successfully execute on its teaching and research mission and increase capital spending, without drawing significantly from unrestricted reserves.

## MBA Program Innovation

From a financial perspective, fiscal 2011 was largely a year of preparation for the launch of the "field method" that will complement the School's traditional case method approach. Beginning in fall 2011, the new required first-year MBA course called FIELD, for Field Immersion Experiences for Leadership Development, will focus on developing meaningful small-group learning experiences that are experiential, immersive, and field-based.

During the year, the School made a \$16 million capital investment in renovating

Among these systems is a range of custom software tools for creating and facilitating the hundreds of small student teams that will be formed each year as collaborative learning becomes an increasingly important part of the MBA experience at HBS.

The School has long been committed to welcoming the most talented MBA students, regardless of their country of origin or their financial resources. HBS also endeavors to attract strong MBA candidates who might not otherwise consider a degree in business. In a continuing effort to improve the School's accessibility for

Fellowship Spending (in millions)	MBA	Total*
FY 11	\$ 26	\$ 36
FY 10	25	35
FY 09	25	33
FY 08	21	26
FY 07	17	22

\* includes Doctoral Programs and Executive Education

the 125 Western Avenue building that will house the Harvard Innovation Lab and new FIELD classroom and meeting space. Another \$4.7 million was spent to implement the campus-wide Learning Management System that now enables the faculty to address the heightened tactical challenges of field-based MBA education. Meanwhile, faculty worked intensively with the School's I.T. staff to develop systems to support the FIELD course.

those applying for admission, in fiscal 2011 we made the application process more transparent and interactive, and increased the number of international interviews. HBS also continued to increase its commitment to MBA student financial aid. Average fellowship aid per student rose 11 percent to \$26,745 in fiscal 2011, from \$23,989 in the prior year. Over the past five fiscal years, the School's average two-year MBA fellowship award

has grown from \$32,290 for the Class of 2007 to \$51,800 for the Class of 2012.

### Research

Providing faculty with the support they need to create ideas that have power in practice typically consumes more than 20 percent of the School's operating budget. After peaking prior to the recession, the School's research investments declined in fiscal years 2009 and 2010 as the faculty reined in their use of research resources in an effort to help the School conserve cash during the downturn.

Returning to a prerecession level of research investment was a key budget priority for fiscal 2011, and the School made solid progress toward this objective. Although the total number of faculty full-time equivalent (FTE) positions remained essentially level with the prior year at 217, the School's total spending for faculty research support grew by \$5 million, or 5 percent, to \$96.7 million—within 5 percent of the record high recorded in fiscal 2008.

In addition to providing the faculty with increased levels of direct and indirect research support in fiscal 2011, the School made an initial investment in launching the U.S. Competitiveness Project, through which HBS faculty,

With a novel and challenging research agenda taking shape on the horizon at HBS, recruiting new faculty was a top strategic priority for fiscal 2011. The School was successful in recruiting and on-boarding 14 tenure-track and eight practitioner faculty during the year. As a result, net of planned and unplanned departures, the total size of the faculty stands at 231 FTEs as we begin fiscal 2012. In light of the School's ambitious agenda for knowledge creation, the increasingly global scope of research activity at HBS, and growth in the size of the faculty, our total research investment for fiscal 2012 is budgeted to rise 15 percent from the level spent in fiscal 2011.

### Campus Renewal and Expansion

HBS regularly makes capital investments in facilities renewal and maintenance, infrastructure and I.T. upgrades, and construction of new facilities based on a comprehensive long-term campus development strategy. After investing an unusually modest \$14.2 million in fiscal 2010, the School planned a 57 percent increase in capital spending for fiscal 2011. Actual spending more than doubled from the prior year to \$34.3 million, focusing on long-anticipated as well as opportunistic renewal and maintenance projects designed to preserve

needed space for field-based MBA learning. As well, the School addressed numerous deferred maintenance issues; upgraded life safety systems in Baker, McArthur, and Kresge Halls; and implemented sustainability and energy efficiency measures across the campus. To date, these initiatives have reduced fuel and power consumption at HBS by 20 percent, bringing the School back to 2001 energy usage levels.

### Income for Operations

Executive Education successfully managed campus space limitations and constraints on available faculty in fiscal 2011, resulting in higher enrollments across its program portfolio. Driven by newly launched open enrollment courses and the first increase in custom program participation since the onset of the recession, Executive Education tuition revenue grew by \$19 million, or 17 percent, from the prior year, exceeding the School's fiscal 2011 budget by 16 percent. Reflecting improved capacity utilization and operational efficiency gains, Executive Education's margin contribution for fiscal 2011 significantly exceeded both the School's forecast and actual results for the prior year.

Harvard Business Publishing (HBP) also outperformed the School's expectations

#### Investment in Research (in millions)

<b>FY11</b>	<b>\$ 97</b>
FY10	92
FY09	97
FY08	102
FY07	92

#### Capital Investment (in millions)

<b>FY11</b>	<b>\$ 34</b>
FY10	14
FY09	19
FY08	40
FY07	20

#### Executive Education Revenue (in millions)

<b>FY11</b>	<b>\$ 132</b>
FY10	113
FY09	107
FY08	106
FY07	91

working with partners from other institutions, will focus on reversing the decline in the ability of firms operating in the United States to compete successfully in the global economy. Highlighting the project in fiscal 2012 will be a special issue of *Harvard Business Review*, and a summit of leaders in business, labor, government, and academia, as well as a program of outreach with key decision makers.

the integrity and enhance the quality of the campus.

The School's largest single capital investment in fiscal 2011 was the previously mentioned renovation of 125 Western Avenue, housing the Harvard Innovation Lab on the first floor. The second and third floors of the building, which formerly housed public broadcasting's WGBH, are now providing HBS with new and much-

in fiscal 2011. HBP's revenue for fiscal 2010 had come in substantially higher than initially planned, and in light of the increasingly challenging competitive environment in publishing, it did not seem reasonable to anticipate another year of significant revenue growth. We were equally cautious in our expectations for HBP's bottom-line performance in fiscal 2011, given that executing on HBP's long-term competitive strategy would require

further investment in the business's digital technology platform, online product offerings, and sales organization.

Although Publishing expenses did ultimately increase as planned, fiscal 2011 turned out to be a year of solid top-line growth, as revenue increased by \$17 million, or 13 percent, from fiscal 2010, exceeding our forecast by 16 percent. This growth was fueled by higher sales in all the HBP market groups. Demand for the School's latest release of Harvard ManageMentor was particularly strong, as was advertising revenue at Harvard Business Review.

Gifts from HBS alumni and friends have long played a crucial role in the School's economic model. Fiscal 2011 was no exception. In a highly successful year for fundraising, total cash received from gifts increased by \$30 million, or 51 percent, from the prior fiscal year, to \$89 million—a level not seen since the School's last capital campaign nearly a decade ago.

Fiscal 2011 was also a strong year for class reunion and annual giving by the HBS community, as revenue from unrestricted current use gifts grew by \$4 million, or 29 percent, from fiscal 2010, to \$17 million. This matched the all-time record that HBS set prior to the recession in fiscal 2007, providing the School with additional funds to nurture innovative programs that are not endowed and to support new strategic priorities for research and teaching. At the same time, cash giving for capital projects increased from zero in fiscal 2010 to \$25 million, reflecting the first \$25 million of a \$50 million pledge from philanthropic entities of India's Tata Group for the construction of the new Tata Hall Executive Education facility.

Based on the 27 percent drop in the value of the endowment in fiscal 2009, the School's fiscal 2011 financial plan assumed that endowment distribution income would decrease for the second consecutive year. However, efforts to maximize the use of investment income from existing endowment funds, combined with the new distribution from fis-

cal 2010's \$50 million transfer to the School's endowment reserve, enabled HBS to mitigate this decline.

As a consequence, the School's endowment distribution for fiscal 2011 exceeded the budget by \$4 million and declined by only \$1 million from the prior year. Including the endowment distribution and revenue from unrestricted current use giving, total income from gifts to HBS in fiscal 2011 exceeded the School's forecast by \$7 million, or 6 percent. The School transferred an additional \$50 million to the endowment reserve in fiscal 2011, positioning HBS to further enhance income from endowment funds in fiscal 2012.

In addition to revenue growth, the School's bottom line in fiscal 2011 benefited from numerous expense reduction measures that cumulatively added significantly to overall operating margins. These included savings in the cost of travel, classroom supplies, and salaries related to open positions, as well as deferral of a portion of the spending associated with Dean Nohria's strategic priorities until fiscal 2012.

One of our key financial goals is for the School to serve as a living model of what we teach. Delivering an annual operating surplus is key to our responsibility as stewards of the School's resources, and fiscal 2011 was a successful year in this regard. HBS generated \$53 million in cash from operations, compared with \$52 million in fiscal 2010, and remained solidly cash flow positive.

At the same time, HBS funded ambitious education and research initiatives and invested in increased capital project activity on campus while, in an effort to maximize return on total assets, also transferring the aforementioned \$50 million to the endowment reserve. After making these investments, the School concluded fiscal 2011 with a strong balance of unrestricted reserves that, we believe, provides operations at HBS with an appropriately sized buffer against the impact of future economic downturns.

## Fiscal 2012 Outlook

Fiscal 2012 will be a year of bold changes in the MBA curriculum at HBS. In addition to planning the first-year FIELD course, in fiscal 2011 the faculty developed an innovative modular approach to the second-year elective MBA curriculum, which also will launch in fiscal 2012. Splitting the School's two terms into four

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### Publishing Revenue (in millions)

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<b>FY 11</b>	<b>\$ 152</b>
FY10	135
FY09	137
FY08	139
FY07	128

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half-terms will provide faculty and students greater flexibility in molding their courses and creating a tailored MBA experience. Although we have planned as best we could for the initial investments in these new initiatives, the School will carefully monitor what is needed for them to succeed and adjust the budget if necessary as fiscal 2012 unfolds.

Investment in the HBS faculty, their research, and the Dean's priorities in this area also will deepen in fiscal 2012, with a focus on collaborative and global research efforts. Highlighting this activity, in addition to the U.S. Competitiveness Project, will be the opening of a new amphitheater-style classroom at the Taj Lands End in India. Reflecting last year's addition of the Harvard Center Shanghai, operating expenses related to the School's network of global research facilities now exceed \$10 million annually.

The School's fiscal 2012 financial plan calls for capital investments to grow 95 percent from last year to \$67 million. Groundbreaking for the construction of Tata Hall occurred in fall 2011, and the year's capital budget includes \$32 million related to that project. Approximately \$9 million has been allocated to the complete renovation and construction of MBA classroom space and the Harvard Innovation Lab at 125 Western Avenue. In addition, fiscal 2012 will be a year of increased investment in facilities renewal

and maintenance projects, as well as I.T. infrastructure upgrades, across the campus.

The most important goal for financial planning at HBS is to ensure that the School's economic model remains strong and self-sustaining. Only in this way can we be certain that resources will be available to execute on the School's strategic priorities, regardless of cyclical conditions in the global economy. It is because this model has been successful over the long term that, despite the current economic uncertainties, HBS is well positioned to fund its emerging educational and research priorities for the year ahead.

HBS returned to prerecession levels of revenue growth in fiscal 2011. The School's forecast anticipates continued growth, but at a more modest pace, in fiscal 2012. Demand for the School's print and eLearning product offerings continues to grow, albeit more slowly than in the second half of fiscal 2011. Although space is tighter than ever, enrollment in fall 2011 Executive Education programs is up from last year. In addition, HBS has been informed by the University that fiscal 2012 endowment distributions will grow 4 percent from fiscal 2011, reflecting the rising value of the endowment over the past two years.

At the same time, HBS will be making large capital investments in publishing, as HBP strives to secure its leadership in a tougher and more volatile competitive environment. In Executive Education, constraints related to facilities and faculty will lead to higher expenses. These dynamics are likely to constrain the ability of both businesses to continue increasing their operating margin contributions.

Nonetheless, HBS is in a strong financial position as we begin fiscal 2012. The School's plan for the year is strategically ambitious but financially prudent. The flexible reserves on our balance sheet are sufficient to fund planned investments in innovation and maintain the integrity of the campus, without taking on debt leverage that could lead to long-term structural financial risks.

We are closely monitoring the economic trends, and our financial plan allows HBS the flexibility necessary to adjust to changing conditions in the higher education marketplace should such adjustments become necessary. 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**

# STATEMENT OF ACTIVITY & CASH FLOWS\*

FOR THE FISCAL YEAR ENDED JUNE 30,

Revenues (in millions)	2011	2010	2009
MBA Tuition & Fees	\$ 96	\$ 92	\$ 84
Executive Education Tuition	132	113	107
Publishing	152	135	137
Endowment Distribution	100	101	113
Unrestricted Current Use Gifts	17	13	12
Housing, Rents, & Other	11	11	13
Interest Income	1	2	6
<b>Total Revenues</b>	<b>\$ 509</b>	<b>\$ 467</b>	<b>\$ 472</b>
<b>Expenses</b>			
Salaries & Benefits	\$ 219	\$ 203	\$ 212
Publishing & Printing	55	51	52
Space & Occupancy	44	41	42
Supplies & Equipment	10	9	12
Professional Services	31	22	31
Fellowships	36	35	33
University Assessments	15	15	13
Debt Service	7	7	6
Other Expenses	39	32	37
<b>Total Expenses</b>	<b>\$ 456</b>	<b>\$ 415</b>	<b>\$ 438</b>
Cash from Operations	\$ 53	\$ 52	\$ 34
Use of Endowment Gifts or Appreciation	18	13	11
<b>Cash Before Capital Activities</b>	<b>\$ 71</b>	<b>\$ 65</b>	<b>\$ 45</b>
Capital Expenses	\$ (34)	\$ (14)	\$ (19)
Use of Gifts for Capital Projects	3	3	0
<b>Net Capital Expenses</b>	<b>\$ (31)</b>	<b>\$ (11)</b>	<b>\$ (19)</b>
New Borrowings	\$ 0	\$ 0	\$ 3
Debt Principal Payments	(9)	(7)	(5)
Other Activity	(51)	(44)	(7)
<b>Net Debt &amp; Other</b>	<b>\$ (60)</b>	<b>\$ (51)</b>	<b>\$ (9)</b>
<b>Change in Unrestricted Reserves</b>	<b>\$ (20)</b>	<b>\$ 3</b>	<b>\$ 17</b>
<b>Beginning Balance, Unrestricted Reserves</b>	<b>\$ 99</b>	<b>\$ 96</b>	<b>\$ 79</b>
<b>Ending Balance, Unrestricted Reserves</b>	<b>\$ 79</b>	<b>\$ 99</b>	<b>\$ 96</b>

# CONSOLIDATED BALANCE SHEET

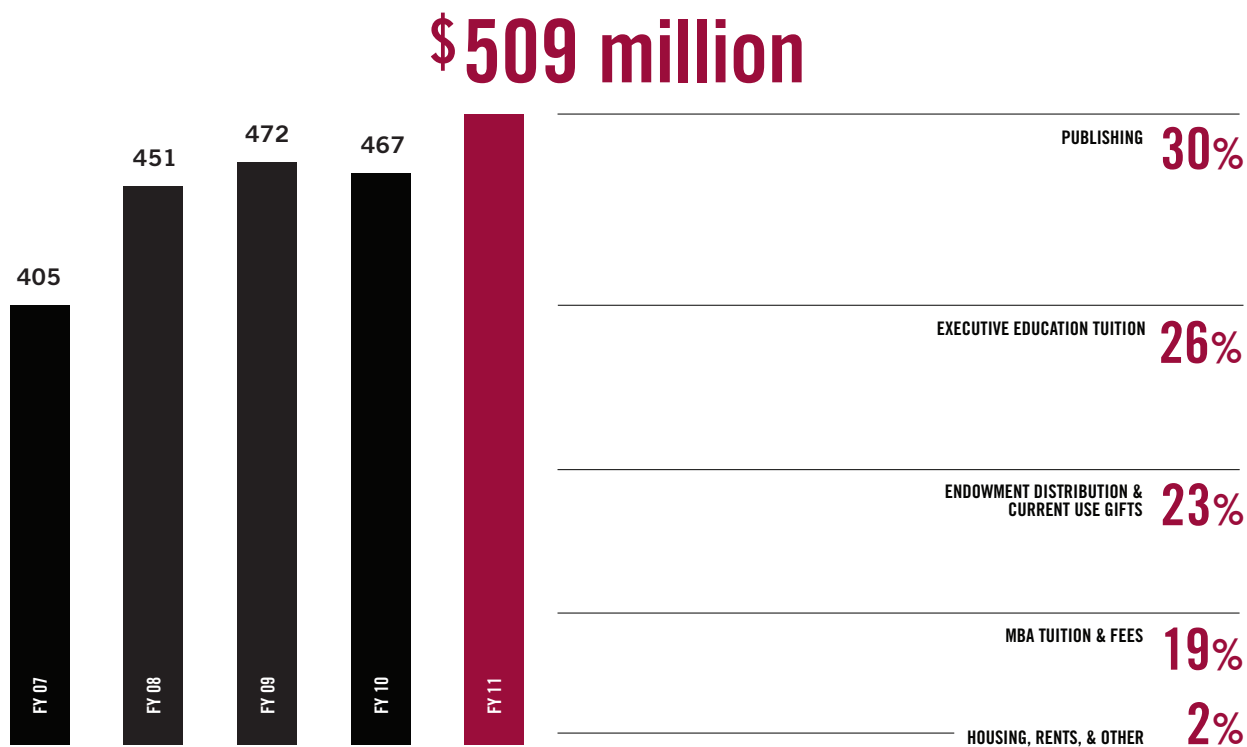
FOR THE FISCAL YEAR ENDED JUNE 30,

<b>Assets</b> (in millions)	<b>2011</b>	<b>2010</b>	<b>2009</b>
Cash	\$ 18	\$ 10	\$ 8
Unrestricted Reserves	79	99	96
Receivables, Loans, & Other Assets	214	235	161
Invested Funds:			
Endowment Investments	2,569	2,154	1,971
Current Fund Investments	66	35	33
Interest in Trusts Held by Others	144	122	113
Facilities, Net of Accumulated Depreciation	438	432	444
<b>Total Assets</b>	<b>\$ 3,528</b>	<b>\$ 3,087</b>	<b>\$ 2,826</b>
<b>Liabilities</b>			
Deposits, Advances, & Other	\$ 44	\$ 45	\$ 37
Deferred Revenue	62	59	52
Other Debt Owed to University	28	26	26
Building Debt	103	112	119
<b>Total Liabilities</b>	<b>\$ 237</b>	<b>\$ 242</b>	<b>\$ 234</b>
<b>Composition of Net Assets</b>			
Unrestricted Reserves	\$ 79	\$ 99	\$ 96
Undistributed Income & Other	8	8	5
Pledge Balances	80	97	39
Student Loan Funds	10	10	10
Investment in Facilities	335	320	325
Endowment & Other Invested Funds	2,779	2,311	2,117
<b>Total Assets Net of Liabilities</b>	<b>\$ 3,291</b>	<b>\$ 2,845</b>	<b>\$ 2,592</b>

\* 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 \$49 million in fiscal 2011. Cash flows, however, would be equivalent under GAAP.

# SUPPLEMENTAL

# FINANCIAL INFORMATION



## REVENUES

Harvard Business School's revenue mix is unique among the Harvard University schools and in higher education. Two of the School's competitive business units—Harvard Business Publishing (HBP) and Executive Education—typically generate more than 50 percent of total annual revenues, making HBS less reliant on its endowment than the other schools at Harvard.

In addition to contributing income for operations, HBP and Executive Education enable the School to spread the faculty's ideas more broadly and influence management practice on a larger

scale. Faculty research at HBS is funded primarily by the School—not by outside sponsors such as government agencies, foundations, and corporations. This enables HBS faculty to pursue the research opportunities they believe have the greatest potential to create new knowledge, without the constraints associated with funding from external organizations.

The intellectual capital produced by the faculty is globally disseminated through the School's Executive Education programs and HBP's portfolio of periodicals, eLearning products, books, and

HBS cases. Completing the self-sustaining cycle, margin contributions from HBP and Executive Education serve as the primary sources of funding for the faculty's research.

The levels of revenue generated by HBP and Executive Education in any given year are sensitive to trends in the global economy and the capital markets. The same is true for the School's endowment distribution revenue, which has ranged between 20 and 24 percent of total revenue for the past several years. In fiscal 2011, the School's endowment distribution revenue declined to 20 per-



cent of total revenue, from 22 percent a year earlier.

This decline was more than offset, however, by stronger-than-expected results at Executive Education and HBP. Although fiscal 2011 was a year of slow and inconsistent economic recovery in the United States and in many of the world's markets, both of these businesses performed exceptionally well. As a result, on a combined basis, Executive Education and HBP revenue grew by \$36 million, or 15 percent, from fiscal 2010.

The School's total revenue for fiscal 2011 grew by \$42 million, or 9 percent, from fiscal 2010. In addition to gains at Executive Education and HBP, this growth reflected a combined \$8 million increase in revenue from unrestricted current use gifts and MBA tuition and fees, slightly offset by lower interest income as well as the smaller endowment distribution.

#### MBA Tuition & Fees

The School's chief objective in setting tuition and fees is to recover a portion of the growth in MBA program delivery costs and investments made to enrich the HBS educational experience. In fiscal 2011, tuition and fee revenue from the School's core academic program grew to \$96 million, from \$92 million in fiscal 2010. First-year MBA tuition in fiscal 2011 was \$48,600—near the midpoint among the seven comparable schools tracked by HBS—compared with \$46,150 last year.

#### Executive Education

Executive Education continued to successfully manage constraints on facilities space and available faculty in fiscal 2011, producing strong revenue growth for the second consecutive year. Total participant enrollment increased by nearly 1,300, or 15 percent, from fiscal 2010, to approximately 9,900. Executive Education tuition revenue grew by 17 percent to \$132 million, from \$113 million a year earlier.

#### Harvard Business Publishing

The School's publishing business leveraged its industry-leading content and digital platform technology to produce strong sales growth in fiscal 2011. HBP's revenue grew by \$17 million, or 13 percent, from fiscal 2010, to \$152 million. All publishing product lines performed well, highlighted by strong growth in eLearning product sales and advertising revenue at *Harvard Business Review*.

#### Gifts & Endowment

Revenue from gifts to HBS—in the form of endowment distributions and gifts for unrestricted current use—rose to \$117 million in fiscal 2011, from \$114 million in fiscal 2010.

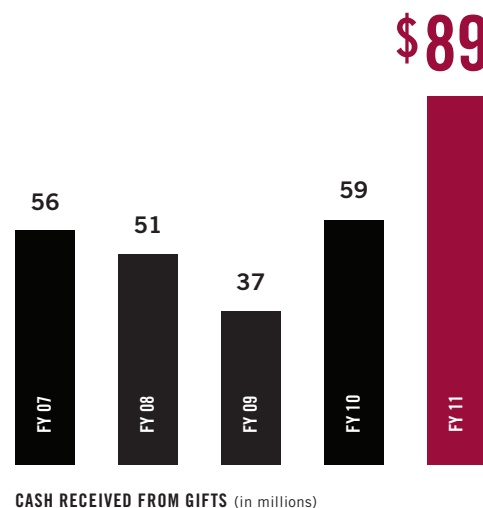
Like other Harvard schools, HBS raises its own endowment and current use funds. The School's endowment currently consists of more than 1,000 discrete funds established over the years by individual donors, corporations, and reunion classes. HBS budgets the use of endowment distributions to support operations according to the terms of each

gift. The School's endowment funds, along with those of the other Harvard schools, are managed by Harvard Management Company, 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 one-time or time-limited 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.

As part of absorbing the endowment's fiscal 2009 market value decline into operations, the University reduced the fiscal 2011 annual distribution by 10 percent year-over-year, reflecting a payout rate of 5.3 percent. In an effort to offset the impact of this lower rate, HBS worked diligently to maximize the use of distributions available from existing endowment funds. Income from the

Gifts Received (in millions)	FY 11	FY 10
Endowment	\$ 28	33
Restricted Current Use	19	13
Unrestricted Current Use	17	13
Construction Gifts	25	--
<b>Total</b>	<b>\$ 89</b>	<b>\$ 59</b>

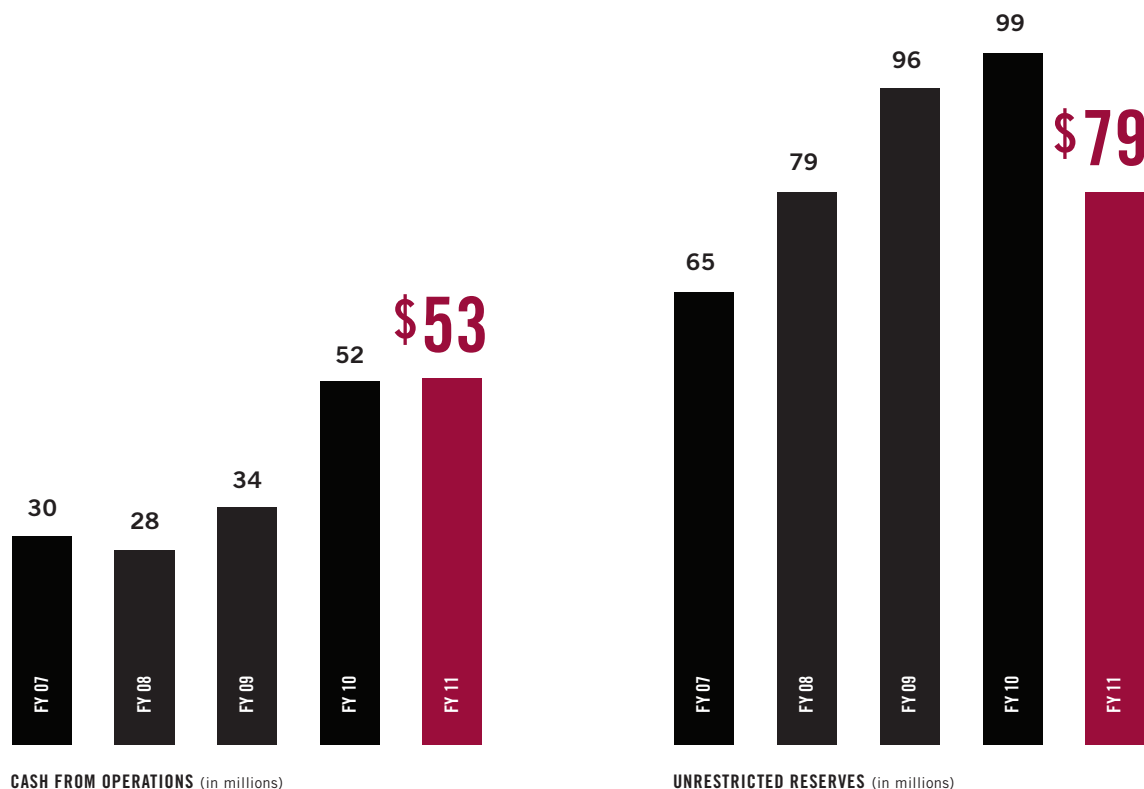


\$50 million transfer to the School's endowment reserve in fiscal 2010 also helped mitigate this year's reduced pay-out rate. As a result, the School's fiscal 2011 endowment distribution revenue, which totaled \$100 million, decreased only 1 percent from the prior year.

The absolute return on the Harvard endowment was +21.4 percent in fiscal 2011, net of all expenses and fees, compared with +11.0 percent in fiscal 2010. The year-end market value of the HBS endowment, plus the School's current use funds, increased 20 percent to \$2.8 billion, from \$2.3 billion at June 30, 2010. This growth reflected net appreciation in endowment principal of \$440 million, after subtracting the annual distribution and decapitalizations, as well as \$28 million in endowment

Endowment Returns	Harvard Endowment	Benchmark*
<b>FY11</b>	<b>21.4 %</b>	<b>19.5 %</b>
FY10	11.0	12.6
FY09	-27.3	-13.5
FY08	8.6	-4.4
FY07	23.0	17.7
FY06	16.7	10.8
FY05	19.2	10.5
FY04	21.1	16.2
FY03	12.5	4.0
FY02	-0.5	-5.9
<b>5-Year Growth</b>	<b>5.5 %</b>	<b>6.4 %</b>
<b>10-Year Growth</b>	<b>9.4 %</b>	<b>6.8 %</b>

\* Industry benchmark figures for FY09–FY11 are S&P 500 / CITI US BIG; figures for FY02–FY08 are Trust Universe Comparison Service



gifts to HBS received by the School during the year.

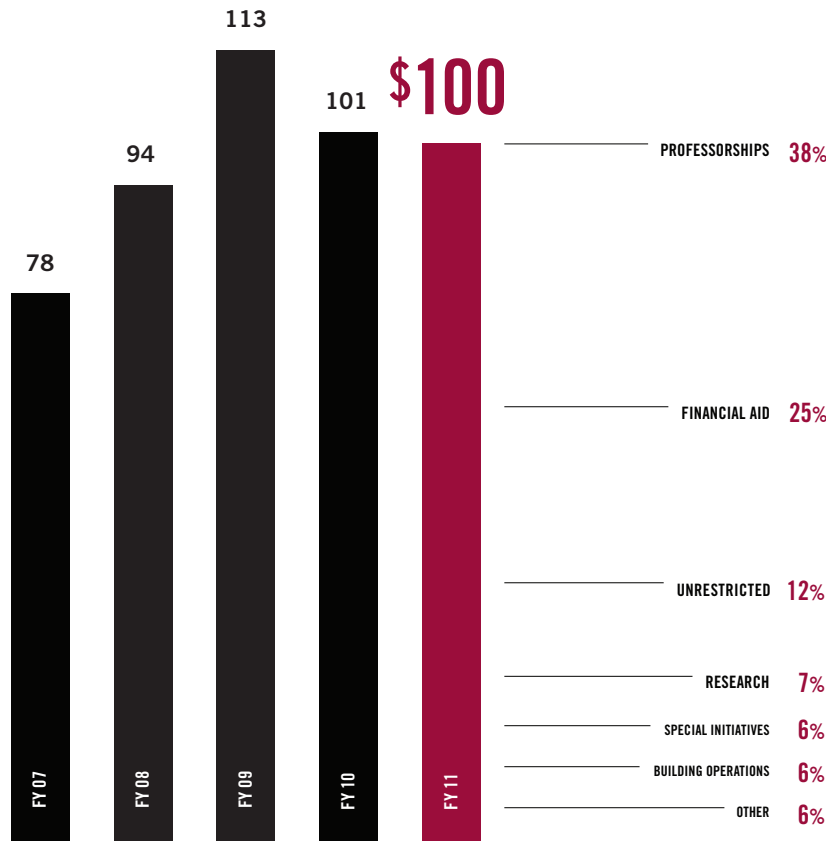
Driven in part by continued strength in endowment giving, fiscal 2011 was an outstanding year for fundraising at the School. The HBS community once again demonstrated its involvement and generosity by giving \$77 million in new gifts and pledges. Total cash received from gifts grew by 51 percent to \$89 million, from \$59 million in fiscal 2010. This \$89 million included new endowment gifts and gifts for capital projects, payments on prior years' pledges, and restricted and unrestricted current use giving.

Strong growth in unrestricted current use giving was key to the School's fundraising success in fiscal 2011. These gifts provide crucial support for new initiatives and remain an important

financial priority for the School. Growing for the second consecutive year, revenue from unrestricted current use gifts increased by 31 percent in fiscal 2011 to \$17 million, from \$13 million in fiscal 2010. HBS received gifts of all types from nearly 13,800 donors during the year, including MBA, Doctoral, and Executive Education program alumni, as well as other friends of HBS. As in the prior year, 27 percent of the School's MBA alumni gave to HBS in fiscal 2011.

**Other Revenues**

Revenue in the Housing, Rents, and Other category was flat in fiscal 2011 at \$11 million. The School's interest income declined from the prior year by \$1 million, or 50 percent, due to lower interest rates.

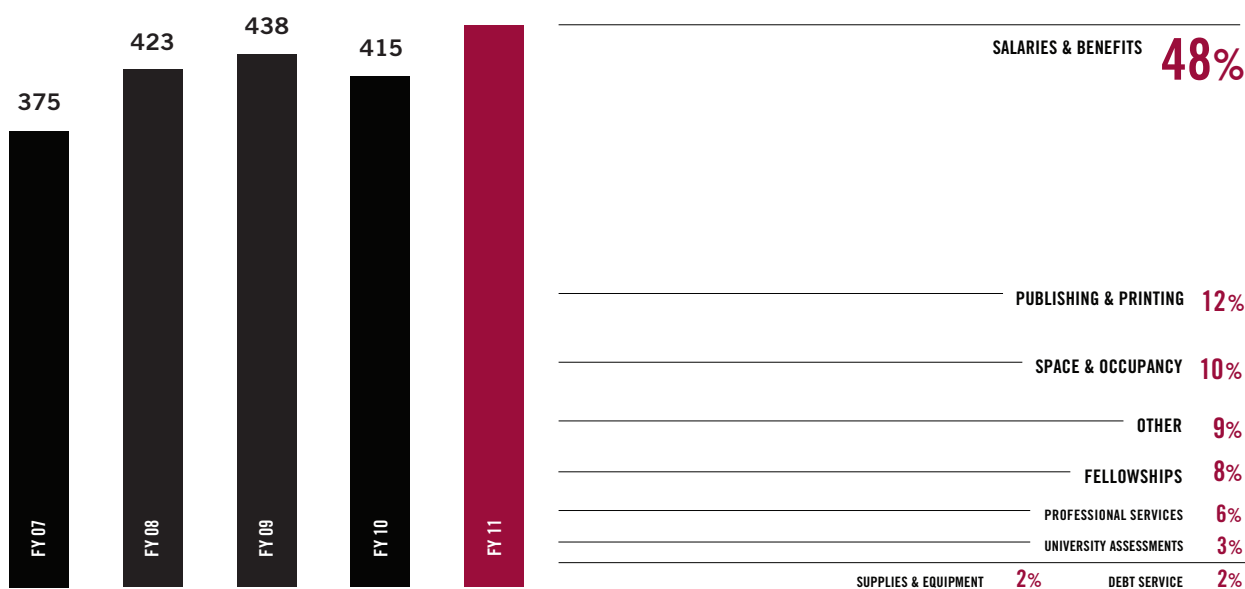


ENDOWMENT DISTRIBUTION (in millions)



ENDOWMENT GROWTH (in billions)

**\$456 million**



## EXPENSES

The School's operating expenses for fiscal 2011 totaled \$456 million—up by \$41 million, or 10 percent, from fiscal 2010 and within 1 percent of the amount budgeted for the year. Categories of spending at HBP and Executive Education that would be considered “cost of goods sold” in the for-profit world accounted for a significant portion of the increase. Despite incurring higher costs, however, both of these competitive businesses continued to demonstrate strong leverage to incremental sales, generating increased margin contributions to operations as revenues grew. Another key driver of

expense growth in fiscal 2011 was the School's increased investment in supporting the faculty's research around the world, which increased to \$97 million, from \$92 million in fiscal 2010.

The functional areas related to these expenses cut across several line items in the School's Statement of Activity and Cash Flows. Expenses charged to HBP and Executive Education include direct costs for staff compensation, specialized outside professional services in areas such as I.T. and marketing, and residence expenses for executive program participants. Faculty research ex-

pense includes a significant portion of faculty salaries and benefits, 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.

### Salaries & Benefits

Salaries and benefits—the largest line item in the School's expense budget—increased by 8 percent in fiscal 2011 to \$219 million, from \$203 million in the

prior year. The increase reflected higher salary rates and rising benefits expense, as well as administrative staff positions added to support MBA program innovation and growth initiatives in the School's Publishing business.

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. The size of the faculty remained essentially level in fiscal 2011 at 217 FTEs. The School's total administrative staff budget grew to 1,138 FTEs in fiscal 2011, from 1,087 in the prior year. The majority of the added staff positions related to sales and content creation activity at HBP and MBA program innovations.

#### **Fellowships**

The prospect of entering the workforce with high levels of debt can deter strong MBA candidates from applying to HBS and restrict their career choices upon graduation. Consequently, one of the School's key strategic priorities is to assist students in minimizing their debt at graduation by ensuring that fellowship support, or financial aid, keeps pace with MBA tuition and fees. HBS reports fellowships as an expense line item on the Statement of Activity and Cash Flows.

Funding for fellowships comes primarily from restricted endowment giving by HBS alumni and friends. Although endowment distribution revenue declined from the prior year in fiscal 2011, the School was able to use unrestricted funds and current use gifts to support continued growth in financial aid spending. Total fellowship expense for fiscal 2011, including assistance for doctoral candidates and a limited number of Executive Education participants, as well as for MBA students, increased by \$1 million from fiscal 2010 to \$36 million.

#### **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. Reflecting HBP's ongoing strategic investments in digital infra-

structure and content, the School's total publishing and printing expenses increased by \$4 million from fiscal 2010 to \$55 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 associated 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 centers. In addition, residence expenses for executive program participants are reported under this category. Largely driven by higher underlying operating costs—especially those related to the School's global research centers—as well as business growth at HBP, total space and occupancy expenses for fiscal 2011 grew by \$3 million from the prior year to \$44 million.

#### **Professional Services and Other Expenses**

Spending in several other areas of the budget returned to prerecession levels in fiscal 2011. Professional services expense rose by \$9 million from fiscal 2010 to \$31 million. This increase primarily reflected spending on external resources to support strategic growth in Publishing and Executive Education, and I.T. platform development for the new field-based MBA FIELD course. Driven by higher levels of activity across the School, expenses for supplies and equipment increased by \$1 million to \$10 million. Spending in the Other Expenses category, which includes items such as travel and catering, increased by \$7 million, to \$39 million.

#### **University Assessments**

University assessments cover essential services provided to HBS by the Univer-

sity, 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 2011 for these assessments remained level with the prior year at \$15 million.

#### **Debt Service**

In addition to gifts and internally generated cash, as well as unrestricted reserves, HBS finances major capital projects with debt financed through the University, using leverage strategically 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, expectations for the performance of the Harvard endowment, and the availability of University debt.

Reflecting this cautious use of debt, the School's balance sheet historically has been only modestly leveraged, and it remained so in fiscal 2011. The increased capital activity during the year was primarily funded by cash from operations; there were no new borrowings, and HBS paid down \$9 million in building debt. As a result, the School's year-end fiscal 2011 building debt-to-asset ratio declined to 3.1 percent from 4.0 percent a year earlier. Other university debt—mainly consisting of repayment obligations to the University for mortgage loans made by HBS as a faculty recruiting incentive—increased by \$2 million from fiscal 2010 to \$28 million.

The School's debt service expense, which consists of interest payments to the University and is primarily covered by using cash from operations, remained flat with the prior year in fiscal 2011 at \$7 million. As in fiscal 2010, debt service expenses were mainly associated with borrowings to finance prior years' campus expansion. The interest portion of the School's debt service amounted to less than 2 percent of total operating expenses in fiscal 2011.

### Cash Before Capital Activities

The School's cash from operations increased in fiscal 2011 by \$1 million from the prior year to \$53 million. As in fiscal 2010, this strong result was driven primarily by increased margin contributions from Executive Education and Publishing, as well as the HBS community's generous giving to the School. In addition, use of restricted current use gifts, as well as cash from prior years' endowment gifts or appreciation, contributed \$18 million to the School's cash flow in fiscal 2011, compared with \$13 million in fiscal 2010. As a result, cash before capital activities increased by \$6 million, or 9 percent, to \$71 million, from \$65 million in fiscal 2010.

### Net Capital Expenses

In accordance with the School's long-term campus plan, the last phase of significant capital investment at HBS concluded several years ago. Capital spending, net of gifts used for capital projects, has generally declined since then, falling in fiscal 2010 to an expected low point for the foreseeable future of \$11 million. In fiscal 2011, the School's net capital expenses increased to \$31 million.

This growth reflected a \$16 million investment in renovating the 125 Western

Avenue building that will house the Harvard Innovation Lab and additional classroom space. The increase also reflected investments in opportunistic projects focused on the renewal and maintenance of buildings, infrastructure, and I.T. systems across the campus.

### Net Debt & Other Expenses

The School's new borrowings, which have totaled just \$3 million over the past three years, dropped to zero in fiscal 2010 and remained at zero in fiscal 2011. Debt principal payments for fiscal 2011 increased by \$2 million in prepayments to \$9 million, from \$7 million in fiscal 2010. Other non-reserve activity in fiscal 2011 increased from the prior year by \$7 million to \$51 million. This amount primarily reflected, for the second consecutive year, the transfer of \$50 million to the School's endowment reserve. This reserve was established several years ago with the goal of realizing long-term investment returns.

As a result of this transfer, plus investment returns for the year, HBS concluded fiscal 2011 with an endowment reserve balance of \$228 million, up from \$149 million a year earlier. Together with the School's debt principal payments in fiscal 2011, the transfer to the endowment reserve resulted in a \$9 million decline in Net Debt and Other category for the year.

### Ending Balance, Unrestricted Reserves

HBS relies on unrestricted reserves to finance major campus expansion projects and capitalize on unforeseen strategic opportunities, along with a mix of internally generated cash, gifts, and debt. More than 50 percent of the School's revenues come from business units that are highly sensitive to the economy. Consequently, maintaining an ample balance of unrestricted reserves outside of 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 2011 was a successful year in this regard. After the aforementioned transfer of \$50 million to the endowment reserve, the School's unrestricted reserves declined by only \$20 million from fiscal 2010, and HBS concluded fiscal 2011 with a strong year-end unrestricted reserves balance of \$79 million.

#### I.T. Investment (in millions)

<b>FY 11</b>	<b>\$ 50</b>
FY 10	40
FY 09	55
FY 08	46
FY 07	37

#### Building Debt Outstanding (in millions)

<b>FY 11</b>	<b>\$ 103</b>
FY 10	112
FY 09	119
FY 08	121
FY 07	108



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This document is intended to provide insight into the way Harvard Business School manages its resources and plans strategically for its future. Further information about the School can be found at [www.hbs.edu](http://www.hbs.edu).

This report can be viewed or downloaded at [www.hbs.edu/annualreport](http://www.hbs.edu/annualreport).

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