

Harvard
Business
School

2021

ANNUAL REPORT



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From the Dean

The global pandemic we've endured over these many months has challenged Harvard Business School on many levels, but I could not be prouder of how our faculty, students, and staff have responded. In this FY21 Annual Report, you will see evidence of their resilience on both the balance sheet and in the vignettes that mark notable milestones of our academic calendar.

Since transitioning to my role as the School's 11th dean on January 1, 2021, I engaged in over 1,000 in-depth conversations with members of our community, listening to their hopes and dreams for our future. I believe in the power of data, and so I poured my notes from those conversations into a natural language processor to organize and analyze the themes. What rose to the surface are three powerful aspirations for HBS and three engines that will propel us toward them.

The first aspiration is to have Harvard Business School be a driving force in defining and enhancing the role of business in global society. Whether that means addressing issues of inequality, thinking about the impact of climate change, or reimagining the role of capitalism, we must demonstrate the ways businesses create positive change, and bring our influence to bear on future generations of business leaders.

The second aspiration is research in action. As scholars, we strive for impact in the academy, yet we also want our research to enhance the practice of management. Our research agenda must reflect the shifts that are occurring in the world of business, such as digitization and data science. But this must not come at the expense of the human element, designing business and operating models that demonstrate empathy and understanding and how to make the most of differences.

Because everything we do is in service to our mission of educating leaders who make a difference in the world, the third aspiration is transformation in our educational programs. This includes both what we teach and how we deliver that content. We must continue to innovate in all of our programs, equipping future leaders with the judgment and skills to manage an ever more global and diverse workforce. And we must push ourselves with the same urgency we've demonstrated during the pandemic, to find new ways of engaging learners throughout their lives with meaningful, relevant ideas.

Equally important as the aspirations are the engines that will help us achieve them. The first of these is racial equity, diversity, and inclusion. We have to work harder



to attract diverse talent to the School and help every member of our community be the best they can be. The second engine is digital transformation, which means creating a digital research infrastructure and a delivery platform where we can scale our impact exponentially. The third engine is leveraging the power of Harvard University, building bridges to the humanities that will round out our partnerships with the sciences and engineering.

I look forward to keeping you informed on our progress in the coming year.

All the best and kindest regards,

SRIKANT DATAR
DEAN OF THE FACULTY

The Year in Review

FY 21

The 2020–21 fiscal year was one of innovation and adaptation. While the pandemic disrupted lives and activities around the world, Harvard Business School sought to not just continue but also adapt and extend its core activities of teaching, research, and disseminating ideas. Faculty and students alike embraced the custom technology that enabled teaching and learning both in the classroom and remotely. They were supported by hundreds of front-line staff who came to campus every day to transform old processes and build and manage new systems. Throughout, the HBS community worked together to overcome the complexities inherent in this hybrid approach.



Students Arrive

More than 9,300 applicants sought a place in the MBA Program and nearly 800 applicants in the Doctoral Programs; the acceptance rate for both was highly competitive, at 13% and 4%, respectively.

Fellowships were awarded to 838 MBA students, with an average fellowship of \$42,225 for the Class of 2021.

MBA Class of 2022

732
Students

9,304 Applications
13% Acceptance Rate

Incoming Doctoral Students

26
Students

797 Applications
4% Acceptance Rate



New Faculty Join

Thirty faculty members, including new tenure-track professors, visitors, and practitioners, participated in START, a deep-dive orientation to the School that took place virtually over three days in July 2020 with one day on campus in August. The program provides an overview of Harvard Business School and a window into research and research support at the School, the case method, and the classroom experience. Teaching faculty join study groups and practice preparing and opening a case, and then receive feedback and advice from experienced colleagues. Professor Ryan Buell designs and leads the program with the support of the Division of Research and Faculty Development.



Associate Professor

Row 1

Shai Benjamin Bernstein, *Entrepreneurial Management*



Assistant Professors

Row 2

Samuel Antill, *Finance*
Anke Becker, *Entrepreneurial Management*



Row 3

Edward Chang, *Negotiation, Organizations & Markets*
Thomas Graeber, *Negotiation, Organizations & Markets*



Row 4

Jillian Jordan, *Negotiation, Organizations & Markets*
James Riley, *Organizational Behavior*

Row 5

Maria Roche, *Strategy*
Marlous van Waijenburg, *Business, Government & the International Economy*



Row 6

Jonathan Wallen, *Finance*
Jaya Wen, *Business, Government & the International Economy*



Faculty Promoted

Full Professors

Row 1

Ryan Buell, *Technology & Operations Management*
Leslie John, *Negotiation, Organizations & Markets*



Row 2 (left)

Feng Zhu, *Technology & Operations Management*

Associate Professors

Row 2 (right)

Katherine Coffman, *Negotiation, Organizations & Markets*



Row 3

Christine Exley, *Negotiation, Organizations & Markets*
Emil Siriwardane, *Finance*



Staff Shine Through

The faculty and leadership have noted over the years that the staff members are the fuel that propels the School. Never was this more evident than FY21, when staff elevated their performance to new heights, overcoming every obstacle that the pandemic presented, to ensure the continuity of the School's work. Every team leaned in—from food service workers to security to technology and administrative support—whether on campus or remote. Their dedication, commitment to excellence and ability to adapt, allowed HBS to thrive at a time when many other schools were hunkering down.



Racial Equity Plan Announced

In September 2020, HBS unveiled its action plan for racial equity, with ambitious goals for advancing racial equity within and beyond the School. The plan was drafted by the Dean's Anti-Racism Task Force, a group of 25 students, alumni, faculty, and staff who engaged an even broader swath of the community in devising its recommendations. The plan seeks to advance anti-racism education and research, support the Black community at HBS and beyond, engage the broader business community, and change the School's culture and organization. Milestones in the following months include announcing the appointment of Terrill Drake as the School's first Chief Diversity and Inclusion Officer, increasing the number of Black case protagonists in active cases by 3 percent, increasing access to the MBA Program by revising the need-based formula for financial aid and waiving application fees, and becoming the first academic partner to the OneTen Initiative, which aims to create 1 million jobs for Black Americans without a college degree in the next 10 years.

COVID-19 PANDEMIC RESPONSE

A Moving Target with Clear Principles

HBS regularly revised its policies over the course of the year as Harvard, Boston, Cambridge, and Massachusetts modified COVID protocols to reflect the trajectory of the pandemic. The School never wavered on its guiding principles, prioritizing health and safety in planning and decision-making while supporting the residential campus.



Teaching & Learning Modifications

In Summer 2020 work began to design an innovative learning environment—leveraging technology and enhancements to the physical space—that could accommodate both in person and remote students. Following extensive experimentation, HBS launched the academic year with new hybrid classrooms that could seat up to 25 students in person and the rest remote, optimizing the experience for both groups through the addition of monitors and a custom Zoom interface. A smaller enrollment of 1609 MBA students—reflecting a generous deferral and leave policy—enrolled. Doctoral classes were held entirely online.



Health & Well-being on Campus

Throughout the year, students, faculty, and staff participated in regular COVID testing protocols, wore masks at all times, and followed rigorous physical distancing policies. Dining facilities were de-densified to accommodate just one or two diners per table, with only grab-and-go food service available. Outdoor areas were designated where students could gather safely for cocurricular and social activities, provided they had a reservation and a guest list. Perhaps the most obvious changes on campus were the more than 6,000 signs added to remind people about room capacities, daily health attestations, and modified traffic flow patterns. Less visible but equally important were the upgrades to air filtration systems in all buildings, meeting or exceeding Centers for Disease Control (CDC), Commonwealth of Massachusetts, and American Society of Heating, Refrigerating, and Air-Conditioning Engineers (ASHRAE) standards.

COVID-19 PANDEMIC RESPONSE



Innovation in Executive Education

Executive Education was able to deliver all of its programs in virtual formats—including shorter, topic-focused and custom programs, as well as longer offerings such as the General Management Program. Faculty leveraged Zoom, asynchronous learning modules, and the HBS Live Online Classroom to create an engaged learning experience. The faculty and program staff experimented with reducing the size of discussion groups for better engagement, finding new ways for participants to network and socialize virtually, and increasing virtual access to case protagonists. Post-program surveys revealed very strong satisfaction scores.

Seven new programs were introduced, including Competing in the Age of AI, Competing in the Age of Digital Platforms, and Accelerating Board Diversity.

Creating Community in the Virtual Realm

The pandemic did not impede efforts to deepen community engagement as students, staff, faculty and alumni alike sought out new opportunities to connect. MBA student clubs hosted 24 virtual conferences with attendance in some cases far surpassing previous records. HBS Initiatives collectively hosted over 100 virtual events, leveraging the ability to more easily engage practitioners from around the world. Monthly all-staff meetings brought together over 500 staff to each session. And, throughout the year, the External Relations group curated lifelong learning programming and rich content to alumni around the world through 13 virtual events led by HBS faculty, reaching 37,000 participants.

Bringing Alumni Together Virtually

Virtual alumni reunion events in Fall 2020 and Spring 2021—featuring traditional sessions such as the Dean’s Address and faculty presentations—drew more than 3,800 alumni. The experience also included more than 100 HBS-enabled, alumni-led virtual programs in the months beforehand.

Courses & Programs

112%

increase in HBS Online applications

70

virtual Executive Education programs

14,400

hybrid classroom hours across 16 classrooms



Harvard Business Publishing Leadership Change

In February 2021, Harvard Business Publishing announced the retirement of CEO David Wan (MBA 1981). Wan joined HBP in 2002 and helped transform the organization into a global leader in improving the practice of management and its impact in a changing world, growing revenues from approximately \$90 million to \$270 million. He successfully oversaw the publishing company's Higher Education, Corporate Learning, and *Harvard Business Review* groups through digital transformation and seismic market shifts.



Building Renamed for James I. Cash

In September 2020, Harvard Business School announced it would honor James I. Cash, the James E. Robison Professor of Business Administration, Emeritus, by renaming Glass House. The new Cash House name was unveiled in a community-wide event attended by faculty, staff, and students.

At the event, then-Dean Nitin Nohria remarked, "Not only has he transcended many racial barriers in his own life, Jim Cash also has propelled generations of Black students, faculty, and staff, as well as scores of business leaders, to successful and meaningful lives and careers." Following an extensive renovation, Cash House will become home to the newly created Office for Equity, Diversity, Inclusion, and Belonging.

Doctoral Students Receive Awards

Four students were honored with the Wyss Award for Excellence in Doctoral Research and the Martin Award for Excellence in Business Economics.

Wyss Award for Excellence in Research

(named in honor of Hansjörg Wyss, MBA 1965)

Ximena Garcia-Rada (Marketing): consumer decision making and its impact on well-being and close relationships.

Sourobh Ghosh (Technology & Operations Management): firms' use of digital experimentation to drive product innovation and strategy.

Alexa Scherf (Accounting & Management): disclosure and its implications in a variety of contexts.

Martin Award for Excellence in Business Economics

(established by Roger Martin, MBA 1981)

Francesca Bastianello (Business Economics): financial and macroeconomic implications of behavioral biases that affect how individuals learn information and form their beliefs.



Leadership Change at Knowledge & Library Services

Debra Wallace retired from her role as Executive Director of Knowledge and Library Services (KLS) at the end of June 2021, following 15 years of service. Wallace brought innovation to the stewardship of KLS as an information management hub for academics and business leaders on campus and around the world. She was widely respected as a leader among her University peers and in her field. Among her many accomplishments are the Library's organizational redesign, the introduction of web-based information products, and the expansion of the contemporary archival collections.



Library Acquires New Collection

The new *John Hawkins Research Interviews about Henri Termeer* collection contains transcripts of research interviews conducted by Hawkins during the writing of his biography of Termeer, the former chairman, chief executive officer, and president of Genzyme Corp. The collection features 120 interviews with leaders in biotech, science, academia, and government, such as former Massachusetts Governor Deval Patrick, Massachusetts Institute of Technology President Dr. L. Rafael Reif, Harvard Medical School Dean Dr. George Daley, and Biogen Co-founder Dr. Phillip Sharp.



A Dean Transition

In December 2020, Nitin Nohria stepped down after more than 10 years at the helm of HBS. Accomplishments during his tenure include Harvard Business School Online, the Harvard Innovation Labs, the Field Method, new MS/MBA program offerings, building the faculty, and advancing racial equity, all under the umbrella of his 5 Is: Innovation in the School's educational programs; Intellectual ambition for widespread impact; Internationalization to build global knowledge, Inclusion to enhance culture and community, and Integration with Harvard University.

Srikant Datar became Dean on January 1, 2021 and, based on extensive conversations with faculty, staff, students, and alumni, articulated a series of aspirations and engines for the School, including reimagining the educational programs, business and society, research in action, digital transformation, partnering across Harvard, and diversity, equity, and inclusion.



Creating a Sustainable Campus

FY21 marked a decade of intense focus on sustainability at HBS. During that time, HBS has been on the leading edge of sustainability efforts at Harvard University, with a School-wide sustainability plan drafted in 2012 and updated in 2016—ahead of the Harvard Sustainability Plan. At the core of the effort is a focus on careful stewardship of resources, which includes reducing emissions, waste, and energy and water use; implementing green operation standards in building and campus maintenance; and promoting healthy, smart, and sustainable dining options. The campus is a living laboratory for devising best practices and solutions to sustainable living, learning, and working on campus. Conservation measures yielded \$29 million in estimated savings in the last decade, and also brought in \$2 million in incentives and \$130,000 from solar renewable energy credits.



HBS Online Launches New Learning Tracks

HBS Online saw a surge of interest in online learning as a result of the pandemic. In May 2021, the group launched Learning Tracks to enable professionals to specialize in a particular subject area and develop deeper insights and expertise to advance their careers. Tracks include Leadership and Management and Strategy. Upon completion of three courses, learners are awarded a Certificate of Specialization.

Connecting at HBS Online Connex

HBS Online held its annual conference on May 7, 2021. Over 3,000 learners from across the globe gathered virtually for a day of networking, learning, and inspiration surrounding the theme “Navigating the Digital Frontier.”



New Venture Competition Holds 24th Contest

Led by the Arthur Rock Center for Entrepreneurship and the Social Enterprise Initiative, the New Venture Competition finale in March 2021 featured 22 student and alumni teams vying for \$325,000 in cash and in-kind prizes. Since the competition's inception in 1997, there have been more than 6,500 participants, with more than \$3 million awarded to the winning teams. Teams draw on an array of resources and support from across the School, including Entrepreneurs-in-Residence; the library; early stage feedback; and webinars with alumni, social entrepreneurs, and investors.

Winning Teams:

Concord Materials, Hive Health, Shelly Xu Design (*pictured*), Vocal Justice, Bone Health Technologies, Kudos, Karivez Bio

PRIMO Continues Virtually

Summer 2020 marked the first virtual version of the Program for Research in Markets and Organizations (PRIMO), a three-month program that introduces undergraduates to research and an academic career in management by partnering them with a faculty member to work on articles, cases, and other research projects. As part of the School's efforts to increase diversity in doctoral programs, in 2020 the program was open to any undergraduate student in good standing at an American college or university. This year's group of 17 Fellows included students from Wellesley College, Princeton University, Carleton College, and Georgia Institute of Technology.



Harvard Celebrates 111th Class Day & Graduation Ceremonies

The academic year culminated on May 27, 2021, as the School recognized and honored the Class of 2021, livestreaming Class Day celebrations and graduation ceremonies for the 787 students receiving MBA degrees as well as two students earning MBAs and 15 students earning PhD degrees. In addition to Dean Srikant Datar's address to the graduates, Walmart CEO Doug McMillon and Sara "Figes" McLoughlin Figel (MBA 2021) served as Class Day speakers.

787

MBA degrees awarded

16

Doctoral degrees awarded



Dean's Awards Bestowed

Seven graduating students were honored with the Dean's Award, including Bukie Adebo, Abby Burcham, Ryan Flamerich, Alexis Jackson, Elina Rodriguez, and Ronnie Wimberley (all MBA 2021), and Lumumba Seegars (PhD in Organizational Behavior, 2021). The Dean's Award celebrates the achievements of graduates who have had an extraordinary impact on the School, University, or broader community.

Row 1

Bukie Adebo, *MBA 2021*
Abby Burcham, *MBA 2021*

Row 2

Ryan Flamerich, *MBA 2021*
Alexis Jackson, *MBA 2021*

Row 3

Elina Rodriguez, *MBA 2021*
Lumumba Seegars, *PhD, Organizational Behavior, 2021*

Row 4

Ronnie Wimberley, *MBA 2021*

Faculty Recognized for Teaching & Academic Support

Five faculty members were recognized by graduating MBA students for their exceptional contributions to the HBS experience: members Malcolm Baker, Anthony Mayo, and Sophus Reinert for outstanding teaching in the Required Curriculum, and Kristin Mugford and Tom Nicholas for outstanding teaching in the Elective Curriculum.

Two HBS faculty members, Lakshmi Ramarajan and Robert Huckman, were recognized for their exceptional mentorship, collaboration, and support of students with the Wyss Award for Excellence in Doctoral Research. Adi Sunderam and Elizabeth Keenan were selected as runners-up. The student-led award recognizes faculty members for their commitment to developing future scholars.



Leadership Fellows Chosen

The Leadership Fellows Program strives to develop a network of HBS graduates—255 since the program’s inception in 2001—with cross-sector experience who are committed to addressing societal issues throughout their careers.

Row 1

Mae Abdelrahman, *The Juilliard School*
Landon Acriche, *MBTA*

Row 2

Silvia Adam Reig, *Lincoln Center for the Performing Arts*
Prerna Arya, *Harlem Children’s Zone*

Row 3

Rebecca Braun, *Boston Planning & Development Agency*
Soltan Bryce, *Boston Medical Center Health System*

Row 4

Sara Jetty, *Whitney Museum of American Art*
Justin Kim, *Social Finance*

Row 5

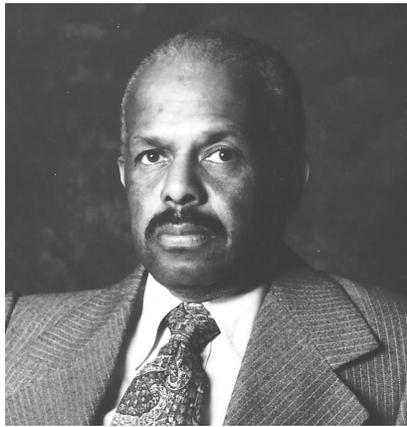
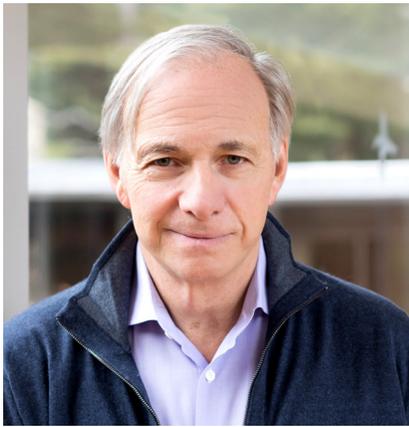
Yogi Kurniawan, *City of San Jose Mayor’s Office*
Jake Mayo, *City of Boston Mayor’s Office*

Row 6

Shani McKinney, *Los Angeles Unified School District*
Steven Povich, *MBTA*

Row 7

Kelsey Roberts, *City of Detroit*
Anuja Samuel, *Equal Justice Initiative*



Alumni Achievement Recognized

Each year Harvard Business School recognizes a small number of outstanding alumni by conferring on them its highest honor, the Alumni Achievement Award. Throughout their careers, these distinguished graduates have contributed significantly to their companies and communities while upholding the highest standards and values in everything they do. Exemplary role models, they inspire all those who aspire to have an impact on both business and society. The 2021 awardees were:

Row 1

Ray Dalio, MBA 1973
Founder, Co-CIO & Chairman, Bridgewater Associates

H. Naylor Fitzhugh, MBA 1933
(posthumous award)

Mezuo Nwuneli, MBA 2003
Cofounder & Managing Partner, Sahel Capital Agribusiness Managers

Row 2

Ndiri Okonkwo Nwuneli, MBA 1999
Cofounder & Managing Partner, Sahel Consulting Agriculture & Nutrition

Terry Virts, GMP 11, 2011
Astronaut & NASA veteran of two spaceflights

Deborah Winshel, MBA 1985
Managing Director & Global Head of Social Impact, BlackRock, Inc.

In Memoriam

Doris Bogues
External Relations

Lisa Gentile
Division of Research & Faculty Development

Robert R. Glauber
Professor of Business Administration

David F. Hawkins
*Lovett-Learned Professor of Business
Administration, Emeritus*

Kenneth A. Kerr
Knowledge & Library Services

Keith Larson
External Relations

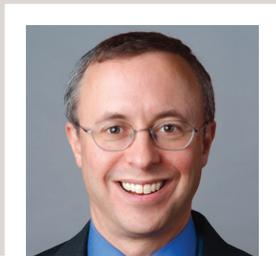
Jane McCormick
MBA Program

Barry O'Sullivan
Dean's House

Financial Highlights

- **Operating revenues decreased 7 percent to \$805 million, while operating expenses declined 6 percent to \$779 million.**
- **Harvard Business School Online and Harvard Business Publishing (HBP) generated record revenues, while MBA and Executive Education tuition revenue declined.**
- **Salaries and benefits grew 3 percent for the year, driven by an increase in the number of faculty.**
- **New gifts and pledges totaled \$162 million, compared with \$76 million in fiscal 2020.**
- **The return on the University's endowment was 33.6 percent, compared with 7.3 percent in fiscal 2020.**
- **The value of the School's endowment (after the net impact of distributions from the endowment and the addition of new gifts) increased to \$5.3 billion, from \$4.1 billion a year earlier.**
- **Capital investments in campus facilities and new construction decreased to \$22 million from \$43 million in fiscal 2020.**
- **The School generated an operating surplus of \$26 million, compared with \$30 million for the prior year.**
- **HBS ended fiscal 2021 with an unrestricted reserves balance of \$211 million, compared with \$174 million a year earlier.**
- **The School's total net assets increased to \$6.4 billion, from \$5.2 billion at the end of fiscal 2020, primarily reflecting the impact of growth in the market value of the endowment.**

From the Chief Financial Officer



In fiscal 2021, Harvard Business School navigated the operational and financial challenges of the pandemic by staying true to its guiding principles: The School prioritized the health and well-being of its faculty, staff, and students as it leaned into its mission of educating leaders who make a difference in the world.

Faced with the most significant disruption to the MBA Program since World War II, the School's leadership—including outgoing Dean Nitin Nohria and incoming Dean Srikant M. Datar—implemented a clear strategy: maintain the quality of the educational experience by investing in hybrid and virtual classroom technologies; protect jobs by reducing noncritical expenses and holding salaries level; and lay the groundwork for important initiatives in a new, post-COVID-19 world.

At the outset of the fiscal year, the School confronted two major financial hurdles. First, roughly 20 percent of admitted MBA students accepted the School's offer to defer their admission, and another 15 percent of existing students took a leave of absence, which meant the loss of tens of millions of dollars in tuition revenue for fiscal 2021. Second, the pandemic forced Executive Education to pivot from its entirely in-person learning model to an all-virtual portfolio. Designing and implementing such a portfolio from the ground up takes time. Given the complexity and time constraints of the task, the initial revenue projection for virtual Executive Education programming in fiscal 2021 was penciled in at what seemed like a realistic expectation: \$0.

But with the entire School community coming together, HBS adapted. Driven by better-than-expected results

in Harvard Business Publishing (HBP) and Harvard Business School Online and the support of HBS alumni, the School delivered financial results that came in significantly ahead of expectations. In a year when HBS had budgeted an operating deficit, the School instead generated an operating surplus of \$26 million in fiscal 2021.

THE HBS ECONOMIC MODEL

The resilience of the School's economic model was tested during fiscal 2021 and proved sound. The HBS model is unique among Harvard University's 12 graduate and professional schools. At its core is a commitment to internally funded faculty research. Earned income from Executive Education, HBP, and HBS Online, augmented by revenue from MBA tuition and alumni gifts, generates a value-sustaining circle of funding. These financial resources enable the School to execute on its strategic priorities, regardless of the economic environment.

HBS research budgets provide the School's faculty the freedom to pursue the questions that interest them most and stay close to practice, generating insights that can help address the most pressing issues confronting businesses, organizations, and society. The faculty then bring the learnings from these interactions back into the classroom. By informing their teaching in all the School's educational programs, their knowledge educates the next generation of leaders and influences the practice of management on a global scale.

As I write, the world continues to face uncertainty. Container ships bottleneck the world's ports, supply chains are unable to keep up with demand, and product shortages loom. Inflation is rising. Racial injustice and eco-

conomic inequality persists. Businesses are adapting to the new dynamic of a remote workforce.

HBS faculty members researched these and other issues in fiscal 2021 and, despite the pandemic, produced significant output. The School's 256 full-time equivalent (FTE) faculty produced 668 cases and course development materials, as well as 491 books, articles, and working papers. Additionally, the School convened nearly 1,400 academics and practitioners across 10 research conferences and hosted a widely attended virtual faculty research symposium.

Innovation across the MBA Program continued in fiscal 2021, as the School delivered the first year of the new joint MS/MBA in Biotechnology: Life Sciences (a joint degree with the Graduate School of Arts and Sciences and Harvard Medical School through the Harvard Department of Stem Cell and Regenerative Biology). With

Fellowships (in millions)	MBA	Total*
FY 21	\$ 37	\$ 53
FY 20	40	57
FY 19	38	51
FY 18	37	50
FY 17	36	48

* Includes Doctoral Programs and Executive Education

so many organizations requiring leaders who possess a broad skill set and perspective, this and other joint degree programs provide students with invaluable, cross-disciplinary expertise that equips them to tackle diverse business challenges. Recognizing their importance, HBS covers a portion of the staff and operational expenses required to support them and shares the MBA tuition with the partnering Harvard schools. We receive generous support from HBS alumni, whose gifts offset the expenses.

The Doctoral Program also made the successful transition to remote learning, delivering 30 courses virtually. All of the Program's graduates were fully employed at graduation, and the School developed a financial aid plan to support an additional year for those students whose job search was affected by the pandemic.

The balance of my letter reports on our fiscal 2021 financial results and our outlook for fiscal 2022. One of our financial goals is for HBS to serve as a living example of a well-run organization, embodying the skills, tools, and frameworks taught across the School's educational programs. Transparency is intrinsic to achieving this goal. Toward this end, the Supplemental Financial Information section beginning on page 26 will explore our results in more detail.

FISCAL 2021 REVIEW

Total revenue decreased by approximately 7 percent from the prior year to \$805 million, primarily reflecting lower revenue from MBA tuition and Executive Education, partly offset by top-line gains from HBP and HBS Online.

For HBP, fiscal 2021 revenue increased 5 percent, as the group advanced its goal of improving the practice of

Investment in Research (in millions)	
FY 21	\$ 126
FY 20	131
FY 19	152
FY 18	144
FY 17	136

management and its impact in a changing world. In support of that mission, HBP developed content on timely and highly relevant issues such as advancing racial equity, teaching in hybrid and virtual environments, and the impact of the pandemic on the future of work.

The group's flagship publication, *Harvard Business Review* (HBR), continued to generate value from its tiered subscription strategy, launched in fiscal 2019. Reflecting the success of HBR's digital initiatives and the relevance of its content, the number of average monthly visitors to HBR.org has more than doubled over the past five years.

Looking ahead, HBP is focused on driving growth across its core editorial products, increasing its global scale, and building strategic partnerships that enhance the group's capabilities and broaden its reach. HBS Online

revenue increased approximately 31 percent in fiscal 2021, significantly exceeding our forecast and generating an operating surplus for the third consecutive year. Through an expanded range of course offerings, HBS Online reached more than 40,000 participants in fiscal 2021. The group has topped 122,000 participants since it began seven years ago. The group began work on the Early College Business Initiative (ECBI), which seeks to inspire underrepresented minority college students to pursue management careers.

Although Executive Education revenue was down approximately 45 percent, fiscal 2021 was a strong year for the group. With all residential programs paused as a result of the pandemic, the group rapidly shifted gears to provide impactful programming in a virtual format.

Over the course of the year, Executive Education designed and delivered 70 virtual Comprehensive Leader-

transfers from the School to the endowment reserve.

The endowment 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 based on the intentions of the donors and the terms of individual gifts. While the endowment is the School's largest financial asset, HBS is among the least dependent on endowment income of the University's 12 degree-granting schools.

Revenue from current use gifts was ahead of forecast at \$60 million in fiscal 2021, flat with the prior year. Restricted and unrestricted current use gifts will continue to play an important role in innovation funding for HBS. This income enables the School to immediately capitalize on emerging opportunities that advance the faculty's pedagogical mission and research agenda.

Publishing Revenue (in millions)	
FY 21	\$ 274
FY 20	262
FY 19	262
FY 18	240
FY 17	221

Executive Education Tuition (in millions)	
FY 21	\$ 81
FY 20	146
FY 19	222
FY 18	207
FY 17	191

ship and Topic-Focused Programs for more than 4,400 participants around the world. Of the 13,101 individuals who participated in programs in fiscal 2021, 32 percent were women—a significant increase from past years. Reflecting the focus of sustaining an engaged learning environment, participants rated the quality of the virtual Executive Education experience as high.

Looking ahead, Executive Education plans to retain and enhance the best aspects of the virtual, blended, and on-campus experiences to drive sustainable growth across the portfolio.

The School's annual endowment distribution for FY21 increased approximately 6 percent to \$184 million, or about 23 percent of total revenues. The increase reflected the University's distribution rate and the size of the endowment, which includes gifts from alumni and

MBA tuition and fees declined \$23 million, or approximately 17 percent for the fiscal year, to \$113 million. The change was driven primarily by the flexible deferral and leave policy enacted in response to the pandemic. Total enrollment in the MBA Program decreased to 1,530 students from 1,847 students in the prior year. The occupancy rate of HBS dorms—90 to 95 percent in a typical year—was only 50 percent in FY21. For the second consecutive year, COVID-19 also caused the cancellation of the semester-long FIELD Global Immersion course, resulting in a refund to students.

As HBS leadership began planning for fiscal 2021, COVID-19 was at the front of the decision-making process. Given the ongoing uncertainty about the pandemic, all departments scrutinized their budgets, preserving only those critical, strategically important expenses that were feasible in light of pandemic-related restrictions.

People were the priority. To avoid layoffs or furloughs, the School scaled back on a range of expenses, reduced overtime, and kept pay rates for faculty and exempt staff flat for the fiscal year.

As a result of these initiatives, combined with the pandemic-related decrease in campus activity, total operating expenses for fiscal 2021 declined approximately 6 percent to \$779 million from \$831 million in the prior year.

Salaries and benefits, the largest component of operating expenses, increased approximately 3 percent to \$386 million. With faculty and staff pay rates remaining flat in fiscal 2021, the variance primarily related to the roughly 5 percent growth in FTE faculty.

Space and occupancy expenses declined 10 percent to \$64 million, reflecting the decrease in student enrollment and on-campus activity. What is not immediately evident in this line item is that the School invested sev-

eral million dollars in pay continuation benefits, consistent with its long-standing commitment to the broader HBS community. These benefits ensured that hundreds of contingent and contract workers, including cafeteria staff and custodians, would continue to be paid even for periods they were not needed on campus.

Capital expenses declined approximately 49 percent to \$22 million in fiscal 2021 from \$43 million in the prior year. At the outset of the pandemic, the School made a conscious effort to reduce its capital spend for the year, focusing on mission-critical projects. These projects included initiating the design and renovation of Cash House and the renewal of McArthur Hall and the build-out of hybrid classrooms. Funds allocated to the hybrid classrooms were part of a \$15 million investment in testing and tracing, diagnostic and personal protective equipment, enhancements to HVAC systems, signage, and other measures designed to keep the School community safe.

FISCAL 2022 OUTLOOK

Fiscal 2022 marks the first full year for Dean Srikant M. Datar, whose vision and experience have been central to setting our strategic course and priorities for the year ahead.

IT Investment (in millions; excludes capital expenses)	
FY 21	\$ 90
FY 20	96
FY 19	87
FY 18	82
FY 17	85

Capital Investment (in millions)	
FY 21	\$ 22
FY 20	43
FY 19	38
FY 18	92
FY 17	78

Of note, for fiscal 2021, Harvard University granted a one-time waiver of a particular assessment the School pays annually to the University. During a period of financial uncertainty, the waiver allowed HBS to deploy more of its resources to support students and the School community.

Reflecting the decline in revenue, cash from operations—the School’s operating surplus—declined approximately 13 percent to \$26 million from \$30 million in fiscal 2020.

The School’s fiscal 2022 budget assumes that total revenues will increase approximately 14 percent from the \$805 million reported in fiscal 2021. Combined revenue from HBP, HBS Online, and Executive Education is expected to grow at a faster rate. With enrollment returning to approximately 1,800 FTE students in fiscal 2022, the budget forecasts MBA tuition and fees will grow in the low 20 percent range.

Restricted and unrestricted current use gifts, which represented approximately 7 percent of total revenues in fiscal 2021, remain vital to the School’s financial health this coming fiscal year. The ongoing support of the HBS community is integral to the School’s ability to advance its curricula, support the faculty’s cutting-edge research, and invest in the projects that fuel strategic innovation.

We expect HBS to benefit from a 2 percent growth in the endowment distribution for fiscal 2022.

Moving down the income statement, operating expenses are expected to increase approximately 19 percent, due in part to the larger faculty and higher program-related expenses, including professional services. As a result, the School has budgeted a small operating deficit for the fiscal year.

The School's capital budget for fiscal 2022 is approximately \$32 million, consisting primarily of building renovations and additional upgrades to the hybrid classrooms.

Regardless of the economic cycle, HBS continues to lean into its mission to educate leaders who make a difference in the world. As an institution built on participant-centered learning, we believe that our investment in people will continue to differentiate—and elevate—an

HBS education. I want to thank the entire HBS community for their dedication and many sacrifices during an exceptionally challenging year. The technology through which education is delivered will no doubt continue to evolve. But the School's resource stewardship, outstanding faculty and staff, engaged students, and the sustained support from our alumni position us for the opportunities ahead.



RICHARD P. MELNICK, MBA 1992
CHIEF FINANCIAL OFFICER
NOVEMBER 21, 2021

Building Debt Outstanding (in millions)	
FY 21	\$ 33
FY 20	40
FY 19	46
FY 18	55
FY 17	64

Harvard Endowment Returns	
FY 21	33.6%
FY 20	7.3
FY 19	6.5
FY 18	10.0
FY 17	8.1
FY 16	- 2.0
FY 15	5.8
FY 14	15.4
FY 13	11.3
FY 12	- 0.1

Supplemental Financial Information

Revenues

HBS funds its operations with cash from three primary sources: MBA tuition and fees; earned income from Harvard Business Publishing (HBP), Executive Education, and HBS Online; and philanthropic revenues (including current use gifts and distribution from the endowment).

In fiscal 2021, the School's total revenues decreased by \$56 million, or 7 percent, to \$805 million from \$861 million in the prior year. The decrease primarily reflected the impact of the pandemic on the MBA Program and Executive Education. With physical distancing guidelines and international travel restrictions in effect, Executive Education pivoted to an all-virtual program portfolio from its traditional residential program model. The top-line decrease was partly offset by HBP and HBS Online, which generated record revenue in fiscal 2021.

MBA Tuition & Fees

Student tuition and fee revenue from the MBA program decreased 17 percent to \$113 million from \$136 million in fiscal 2020, as a number of students chose to take advantage of the School's deferral and leave policies during the pandemic. To put the data in context, enrollment in fiscal 2021 was 1,609 students, 17 percent lower than the prior year's enrollment of 1,847 students. The latter number is in line with the School's average enrollment between fiscal 2016 and fiscal 2020.

First-year MBA tuition in fiscal 2021 was \$73,440, flat with fiscal 2020. Combined tuition and fees for fiscal 2021 were at the lower end of the seven peer schools

tracked by HBS and amounted to 14 percent of the School's total revenues.

Harvard Business Publishing

Four of HBP's five market-facing groups—*Harvard Business Review*, Higher Education, Advertising, and Press—delivered year-over-year revenue growth in fiscal 2021. As a result, total Publishing revenue increased 5 percent from fiscal 2020 to \$274 million.

HBP international revenue continued its steady growth, increasing 8 percent and representing approximately 40 percent of the group's total annual sales in fiscal 2021.

As one of the world's most respected business journals, *Harvard Business Review* continued to capitalize on the increasing appetite for digital content on the key themes of the day. The exploration of topics such as promoting racial equity in the workplace, managing during the pandemic, and the role of sustainability in the boardroom helped drive site traffic and user engagement across multiple channels. As a result, HBR group sales increased 10 percent year-over-year, while circulation grew 3 percent over the same period to a record 349,000.

In addition, *Harvard Business Review* continued to gain momentum from the tiered subscription offer, introduced in fiscal 2019, that enables readers to choose between a digital, digital and print, or premium subscription. The offer helped attract a record monthly average of nearly 12 million visitors to the HBR.org website, an increase of 18 percent from the prior year.

Higher Education sales of course materials for participant-centered learning in business education were up 8 percent from fiscal 2020. With mastery of hybrid teaching now a critical skill, the group continued to expand its thought leadership through webinars and online resources such as Inspiring Minds. This editorial section of the HBP website features motivational lessons and practical insights on a range of topics.

Revenue from Corporate Learning declined 7 percent from the prior year. As a result of the pandemic, many corporate clients delayed the launch of contracted programs, although activity began to rebound at the end of the fiscal year.

Revenue from Press, which has historically been dependent on sales at airports, bookstores, and other retail locations, improved 4 percent from the prior year. The growth was related partly to increased licensing activity for foreign and audio rights.

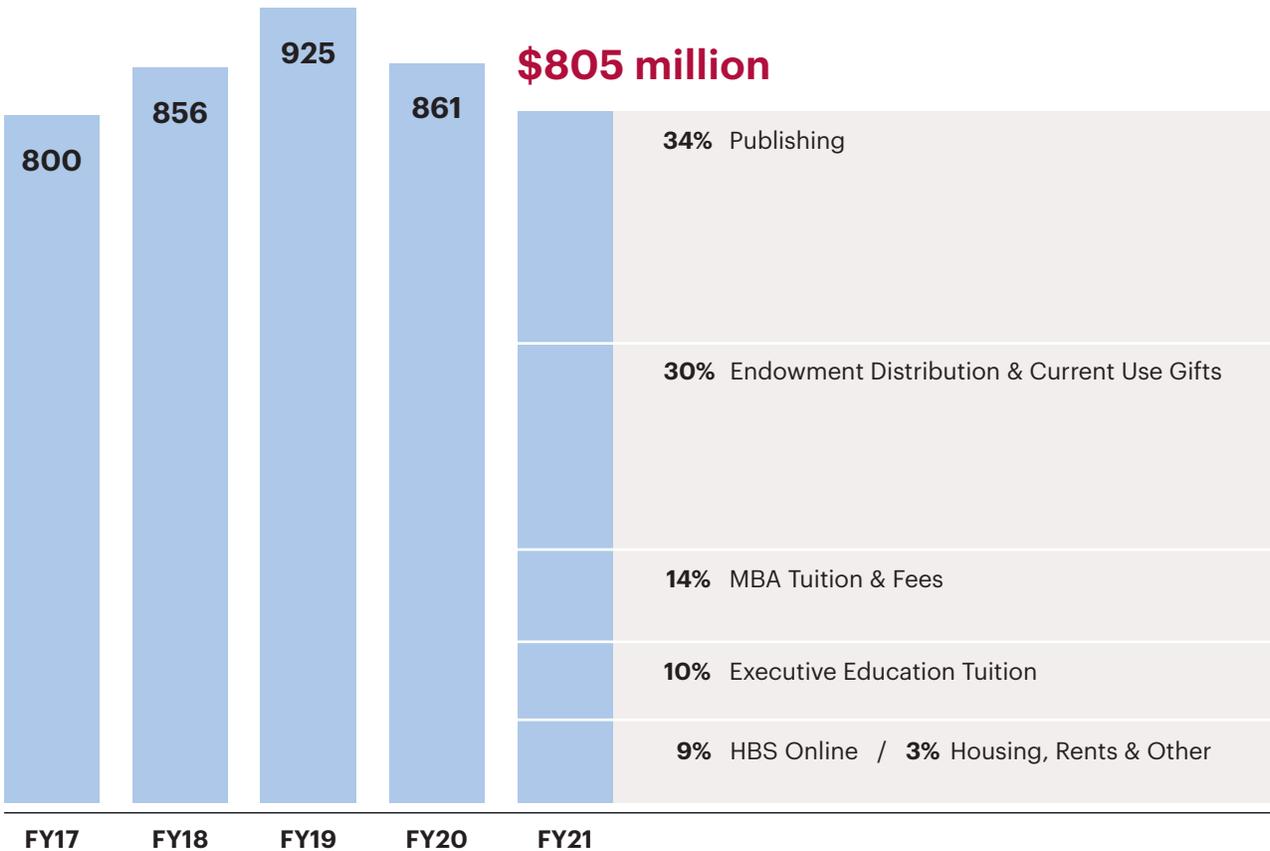
Total HBP revenue amounted to 34 percent of the School’s total revenues in fiscal 2021, four percentage points higher than in fiscal 2020.

Executive Education

Executive Education tuition decreased by \$65 million to \$81 million in fiscal 2021 from \$146 million in the prior year, reflecting the transition to a fully virtual set of programs throughout the year due to the pandemic.

The group rapidly innovated, designed, and delivered 70 virtual Comprehensive Leadership Programs and Topic-Focused Programs for more than 4,400 global participants. Total participation across all Executive Education programs reached 13,101 in fiscal 2021, a 20 percent increase over the prior year. The group also delivered virtual custom programs in a range of industries, piloting new delivery models that accommodated the

REVENUES
(in millions)



needs of clients to reach large-scale audiences.

Total Executive Education tuition revenue accounted for 10 percent of the School's total revenues in fiscal 2021, compared with 17 percent of total revenues in fiscal 2020.

HBS Online

In fiscal 2021, HBS Online generated an operating surplus on a 31 percent increase in revenue, which grew to \$76 million from \$58 million in fiscal 2020.

The growth of HBS Online since its creation has been remarkable, spurred by the demand for a high-quality online business education as a tool for career and personal advancement. Expanding its course portfolio with timely new offerings, HBS Online launched Strategy Execution, a course designed to equip aspiring managers with relevant tools, skills, and frameworks.

As a new benchmark of its growth, HBS Online in fiscal 2021 reached a record 40,000 participants across the portfolio. This included 41 percent women and 53 percent international students.

Total HBS Online revenue amounted to 9 percent of the School's total revenues in fiscal 2021, compared with 7 percent for the prior year.

Gifts & Endowment

Philanthropic revenue has long been vital to sustaining the School's annual operations. In fiscal 2021, total revenue from the School's three philanthropic sources—distribution from the endowment, unrestricted current use gifts, and restricted current use gifts—increased to \$244 million from \$233 million in fiscal 2020. This revenue amounted to 30 percent of the School's total revenues, compared with 27 percent a year earlier. For the University as a whole, philanthropic revenue amounted to 27 percent of total operating revenues for fiscal 2021.

The School's annual endowment distribution for fiscal 2021 increased 6 percent from the prior year to \$184 million, amounting to 23 percent of total revenue. In any given year, the change in the endowment distribution is governed by three factors: a specified rate increase set by the University, which in fiscal 2021 was 2.5 percent; cash transfers by the School to the endowment reserve; and new gifts to the endowment, which currently consists of more than 1,000 discrete funds established over the years by individual donors, corporations, and

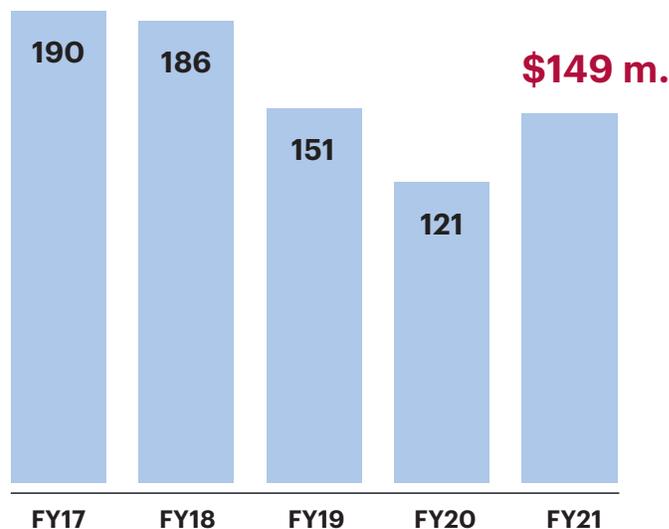
reunion classes. The School budgets the use of endowment distributions to support operations in accordance with the donors' intentions and the terms of each gift.

Harvard is obligated to preserve the purchasing power of the endowment by spending only a small fraction of its value each year. Spending more than that over time, for whatever reason, would privilege the present over the future in a manner inconsistent with an endowment's fundamental purpose of maintaining intergenerational equity.

The University executes on this obligation in determining each year's endowment payout rate—that is, the percentage of the endowment's fair market value withdrawn and distributed annually for operations and for one-time or time-limited strategic purposes. This rate applies to HBS and to all schools at Harvard.

Consistent with the long-term goal of preserving the value of the endowment in real terms (after inflation) and generating a predictable stream of available income, the University's targeted annual payout range is 5.0 to 5.5 percent of market value. The payout rate for fiscal 2021 met that target at 5.2 percent, consistent with the prior year.

CASH RECEIVED FROM GIFTS (in millions)



The utilization of a payout formula means that the annual payout rate is generally lower following years of relatively high investment returns and higher following years of lower investment returns. Adjustments can be made in succeeding years, keeping in mind the long-term payout goals of balancing budgetary stability with the preservation of the endowment’s purchasing power. Each year the Harvard Corporation approves the final distribution amount.

Funds within the HBS endowment, along with those of the other Harvard schools, are managed by Harvard Management Company (HMC), a nonprofit, wholly owned subsidiary of the University. HMC has managed the Harvard endowment portfolio since 1974. Its mission is to ensure the University has the financial resources to confidently maintain and expand its leadership in education and research for future generations.

HMC’s investment portfolio is evolving. Repositioning of the portfolio’s liquid assets—public equities and hedge funds—is well underway. Given the nature of HMC’s illiquid investments—private equity, real estate, and natural resources—restructuring this portion of the portfolio will span multiple years.

The return on endowment assets for fiscal 2021, net of

investment expenses and fees, was 33.6 percent, compared with 7.3 percent and 6.5 percent endowment returns, respectively, for the two prior fiscal years.

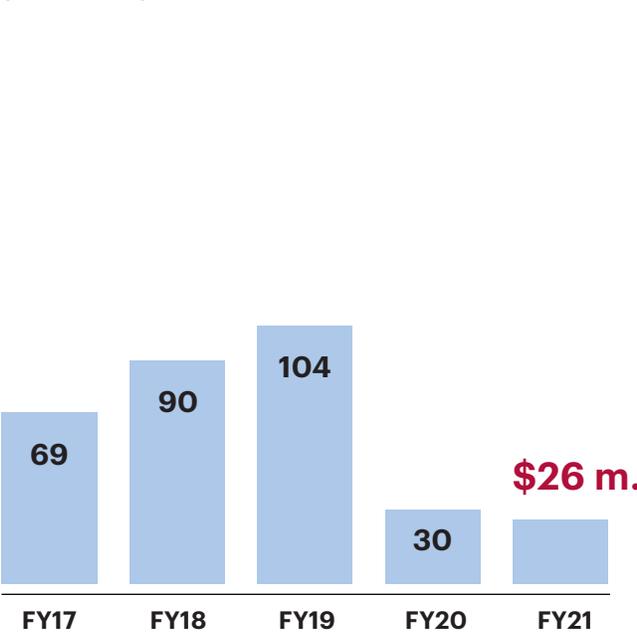
The value of the University endowment grew to \$53.2 billion in fiscal 2021—an increase of 27 percent from \$41.9 billion a year earlier. This value reflects investment returns, net of expenses and fees, as well as cash gifts to the endowment received during the year, net of the University’s annual distributions and decapitalizations.

The fiscal 2021 year-end market value of the HBS endowment was \$5.3 billion as of June 30, 2021, compared with \$4.1 billion a year earlier. This growth reflected the return on the University endowment, less the School’s annual distribution and decapitalizations, offset by endowment gifts received by HBS during the year.

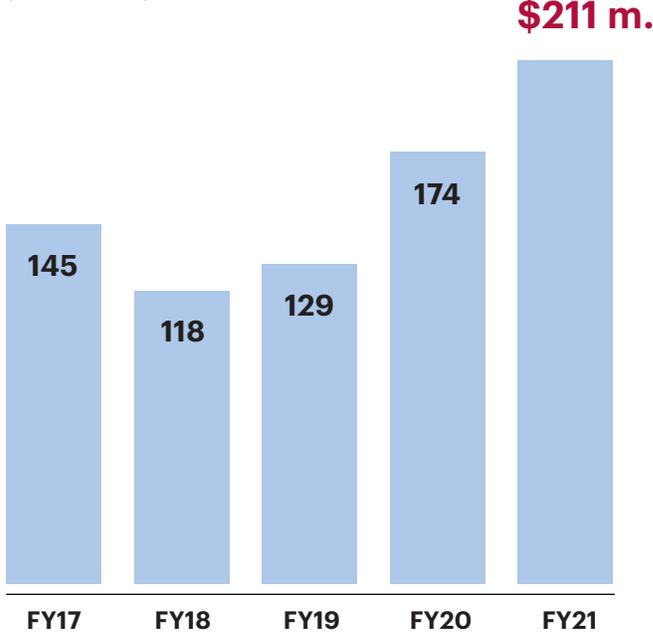
HBS received gifts from more than 10,500 donors in fiscal 2021, including MBA, Doctoral, and Executive Education program alumni, as well as friends of the School. Approximately 20 percent of the School’s MBA alumni gave to HBS in fiscal 2021.

Total cash received from gifts in fiscal 2021, including new endowment gifts and gifts for capital construction projects, payments on prior years’ pledges, and restricted and unrestricted current use giving, was \$149 million,

CASH FROM OPERATIONS
(in millions)



UNRESTRICTED RESERVES
(in millions)



compared with \$121 million in the prior year. Cash giving to the endowment increased to \$80 million, from \$56 million in fiscal 2020. Cash giving for construction projects totaled \$8 million, compared with \$5 million in the prior year.

Current use giving—both restricted and unrestricted—provides crucial funding for innovation across the School. Because current use gifts can be spent immediately, they have a significant impact on cash from operations and, therefore, the School’s ability to capitalize on emerging strategic opportunities. For example, current use giving has enabled the School to enhance the Harvard Innovation Labs ecosystem, expand the reach of HBS Online, and broaden the faculty’s ambitious research agenda.

Growing unrestricted current use giving to a sustainable annual level of \$40 million was one of the major goals of The Campaign for Harvard Business School, which concluded in fiscal 2018. In fiscal 2021, revenue from these flexible current use gifts totaled \$41 million. This represented an increase of 11 percent from \$37 million a year earlier, surpassing expectations in light of the pandemic-related economic disruption. Going forward, sustaining the HBS community’s remarkable commitment to unrestricted current use giving will be instrumental in achieving the mission of the School.

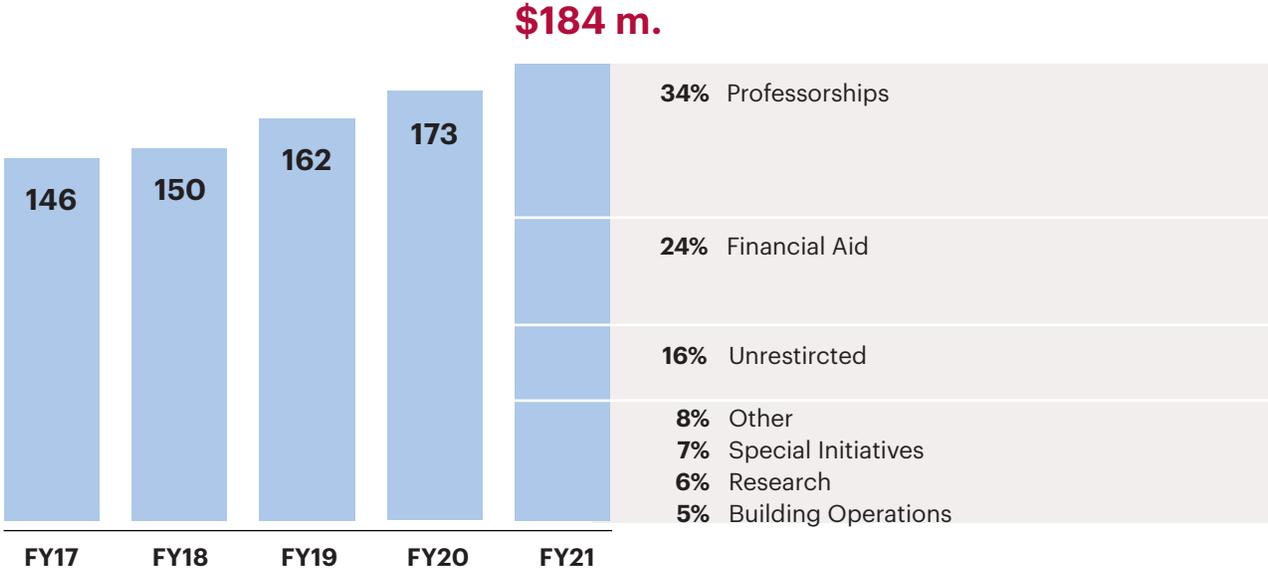
Endowment (in millions)	
FY 21	\$ 5,265
FY 20	4,092
FY 19	3,985
FY 18	3,787
FY 17	3,472

Restricted current use giving typically varies from year to year in line with the School’s changing fundraising priorities and strategic needs. In fiscal 2021, revenue from these restricted gifts decreased 17 percent from a year earlier to \$19 million.

Housing, Rents, Interest Income & Other

With fewer students on campus in fiscal 2021, total revenue from the Housing, Rents & Other category decreased by \$5 million from the prior year to \$16 million. Reflecting decreasing interest rates during fiscal 2021, the School reported interest income of \$1 million, a decrease of \$4 million from fiscal 2020. Total housing, rents, interest income & other revenue amounted to 2 percent of the School’s total revenues in fiscal 2021, down one percentage point year-over-year.

ENDOWMENT DISTRIBUTION
(in millions)



Expenses

Executive Education, HBP, and HBS Online operating costs, as well as the School's faculty research costs, cut across multiple expense line items in the Statement of Activity and Cash Flow on page 36.

Faculty research expenses include a portion of faculty salaries and benefits expense, as well as direct costs for faculty support staff and travel, and for the School's network of global offices. Additionally, HBS allocates a portion of the costs associated with library resources, campus facilities, technology, and administration to this category. Faculty research expenses totaled \$126 million in fiscal 2021, comprising 16 percent of the School's operating budget.

Although HBS characterizes costs charged to HBP, HBS Online, and Executive Education as operating expenses, in a profit-seeking enterprise they would in large part be considered cost of goods sold. These expenses include direct costs for staff compensation, specialized outside professional services in information technology (IT) and other functional areas, marketing costs, and residence expenses for executive program participants.

Total operating expenses for fiscal 2021 were \$779 million, a decrease of \$52 million, or 6 percent, from \$831 million for fiscal 2020. The decrease was primarily attributable to a reduction in program activity as a result of the pandemic.

Salaries & Benefits

Compensation for faculty and administrative staff is the largest expense at HBS. The School's salaries and benefits expense for fiscal 2021 increased 3 percent to \$386 million, from \$375 million in fiscal 2020. This represented 50 percent of the School's total operating costs, compared with 45 percent in the prior year. The increase was driven by investments to grow the HBS faculty. The change in salaries and benefits also was influenced by the resumption of the bonus program and, to a lesser extent, a voluntary early retirement program for staff with a minimum of 10 years of University service.

Expanding the size and diversity of the faculty is a strategic priority for the School. This enhances the strength of our MBA and Doctoral Programs; drives the growth of HBP, Executive Education, and HBS Online; and expands

our ability to conduct cutting-edge research. Fiscal 2021 was a strong year for faculty recruiting and promotions. In all, 13 candidates accepted Assistant Professor positions, and another 6 faculty members received promotions to associate or tenured positions. The total number of faculty, as measured in full-time equivalent (FTE), can rise or fall in any given year reflecting retirements, departures, and fluctuations in recruiting activity. Net of retirements and departures, the size of the HBS faculty increased to 256 FTEs in fiscal 2021, from 244 FTEs a year earlier.

The School's administrative staff grew to a budgeted 1,871 FTEs in fiscal 2021, from 1,839 in the prior year. To capitalize on new opportunities, the School invested to expand the faculty, further enhance HBP, and increase Information Technology staffing to accommodate the growth in hybrid learning.

Fellowships

The School categorizes fellowships, or financial aid, as an expense line item on the Statement of Activity and Cash Flows. Making education at HBS affordable to a broad cross section of applicants, regardless of their financial circumstances, is a long-standing goal of the School.

The prospect of entering or returning to 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, women, those from outside the United States, and students whose early career paths have not enabled them to reduce their undergraduate loans. Consequently, the School strives to assist students in minimizing their debt at graduation by ensuring that fellowship support keeps pace with tuition and fees.

Total fellowships expense for fiscal 2021, including assistance for MBA students, Doctoral candidates, and a limited number of Executive Education participants, decreased by \$4 million, or 7 percent, from fiscal 2020 to \$53 million. The decrease in fellowship expense was strictly a function of the decline in student enrollment, not the size of the fellowships. Fellowships amounted to 7 percent of the School's total operating costs in fiscal 2021, consistent with the prior year.

Helping students navigate a difficult job market hampered by the pandemic, HBS expanded its Rock Summer Fellows program from an average of 100 students to 350 students. The program affords MBA students between their first and second years the opportunity to explore entrepreneurial paths, both as founders and as those interested in joining early-stage startups.

Approximately half of the School’s MBA students currently receive fellowships, which cover an average of more than 50 percent of a student’s total tuition. About 27 percent of total tuition—more than \$30 million—was awarded as fellowships in fiscal 2021.

Average fellowship support per student totaled nearly \$43,000 in fiscal 2021 and was up slightly from the prior year. Over the past five fiscal years, the School’s average two-year MBA fellowship award has grown from nearly \$69,000 for the class of 2017 to more than \$81,000 for the class of 2022.

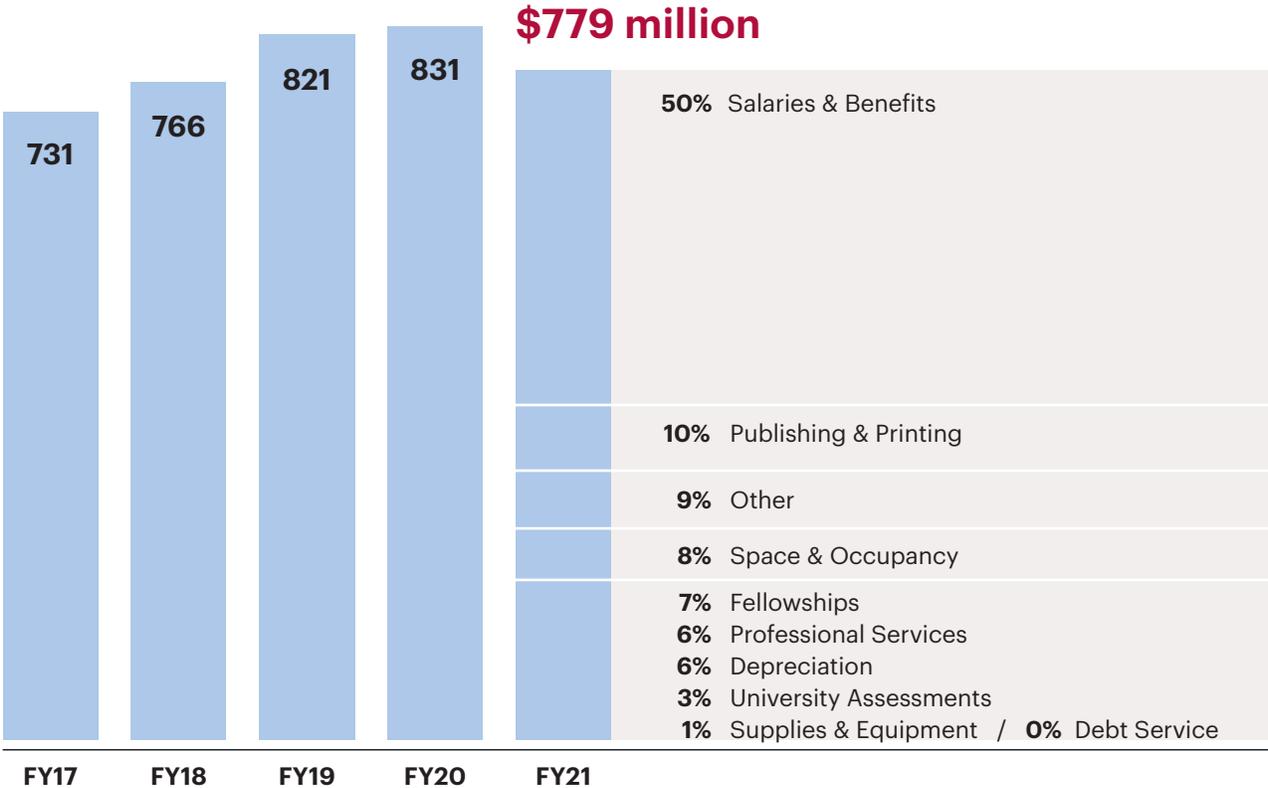
Funding for fellowships comes from restricted endowment and current use giving by HBS alumni and friends. These funds are supplemented by unrestricted funds as necessary, which totaled \$5.5 million in fiscal 2021.

Publishing & Printing

This expense category includes a portion of HBP’s production costs plus a small amount of spending related to the School’s printed materials and publications. The production costs include, for example, *Harvard Business Review’s* printing expense. They also include strategic investments in digital infrastructure and content designed to extend the group’s record of consistent growth at a time of significant change in the way people consume information.

Publishing and printing expenses for fiscal 2021 decreased by \$3 million, or 4 percent, from the prior year to \$78 million. This result reflected a combination of

EXPENSES
(in millions)



factors, including the School's initiative to reduce printing expenses. Printing and publishing amounted to 10 percent total operating costs, consistent with the prior year.

Space & Occupancy

The HBS campus includes 36 buildings encompassing more than 1.9 million square feet of occupied space. Space and occupancy expenses include costs related to maintaining and operating the School's buildings and campus infrastructure. Additionally, facilities improvement and renovation costs that do not qualify as capital expenses are generally included in this category.

Also included are expenses related to dining facilities and other campus services; costs associated with leased space for HBP, HBS Online, and the School's global offices; as well as residence costs for Executive Education program participants.

With fiscal 2021 enrollment down due to the pandemic, the School's space and occupancy expenses for fiscal 2021 declined by \$7 million, or 10 percent, from the prior year to \$64 million. Space and occupancy expense accounted for 8 percent of the School's total operating costs in fiscal 2021, down one percentage point from the prior year.

Professional Services

A large portion of the School's professional services expense is related to spending that a for-profit business would categorize as cost of goods sold.

For fiscal year 2021, professional services expenses decreased \$13 million, or 22 percent, from the prior year to \$46 million. The decline was primarily attributable to the decrease in on-campus activity. A portion of the variance stemmed from the recategorization of Executive Education faculty payments from the professional services line item to the salaries and benefits line item beginning in fiscal 2021. Professional services expenses amounted to 6 percent of total operating costs, down from 7 percent in fiscal 2020.

IT spending represented nearly 11 percent of the School's total operating expenses in fiscal 2021. Controlling IT costs is an important financial priority for the School, and toward that end HBS has begun to shift toward software-as-a-service platforms rather than cus-

tom-developed applications. The School also is moving toward greater use of third-party IT service providers and transitioning IT applications to the cloud.

Supplies & Equipment & Other Expenses

Supplies and equipment expenses for fiscal 2021 decreased by \$2 million, or 17 percent, from the prior year to \$10 million, or 1 percent of the School's total operating costs. In the other expenses category, fiscal 2021 spending was \$73 million, down 28 percent from the prior year. This amounted to 9 percent of the School's total operating costs in both fiscal years.

As with other line items on the income statement, the reduction in on-campus activity due to the pandemic resulted in significant savings in the other expenses line. The largest expense decreases occurred in areas such as advertising, contingent labor, and technical services.

Debt Service

HBS finances major capital projects with a mix of three sources of funding: gifts, unrestricted reserves of internally generated cash, and the strategic use of debt financed through the University.

The HBS balance sheet historically has been only modestly leveraged, and debt leverage remained low in fiscal 2021.

HBS paid down \$7 million in building debt in fiscal 2021, consistent with the prior year. The School's year-end fiscal 2021 building debt-to-asset ratio decreased to 0.5 percent from 0.8 percent in the prior year. Other University debt increased by \$2 million to \$81 million.

The School's debt service expense consists of interest payments to the University and is covered by using cash from operations. Fiscal 2021 debt service expense was \$2 million, down by \$1 million from the prior year. As in fiscal 2020, this expense was mainly associated with borrowings to finance prior years' campus expansion. Consistent with the four prior years, the interest portion of the School's debt service amounted to less than 1 percent of total operating costs in fiscal 2021.

University Assessments

The University Assessments expense encompasses services provided to HBS by Harvard University, including payroll and benefits administration, processing of ac-

counts receivable and payable, and legal services. The amount charged to HBS in any given year is primarily calculated as a percentage of the School's total expenses. The School's expense in fiscal 2021 for these assessments declined \$5 million from the prior year to \$21 million, amounting to 3 percent of total operating costs. The decrease was driven by the University's one-time waiver of the Academic Initiatives Fund in light of the uncertain extent and duration of the pandemic.

Depreciation

The School computes depreciation using the straight-line method over the estimated useful lives of the assets. The depreciation expense for fiscal 2021 increased by \$1 million, or 2.2 percent, from the prior year to \$46 million. The School's depreciation expense for fiscal 2021 amounted to 6 percent of total operating costs, compared with 5 percent a year earlier.

CASH BEFORE CAPITAL ACTIVITIES

Cash from operations totaled \$26 million in fiscal 2021, compared with \$30 million in fiscal 2020. In a year marked by uncertainty and disruption, the School's ability to achieve results that outperformed expectations reflected fiscal discipline, prudent expense reductions, and higher-than-anticipated revenue from HBP and HBS Online.

NET CAPITAL EXPENSES

Given the uncertain financial outlook heading into fiscal 2021, capital spending was limited to mission-critical projects. As a result, total capital expenses for fiscal 2021 decreased to \$22 million from \$43 million in the prior year.

The most significant project was the School's effort to create hybrid classrooms at a cost of \$7.6 million. This represents a long-term investment that can be leveraged to support hybrid learning in many contexts.

The School's net capital expenses for fiscal 2021 totaled \$30 million, consistent with the prior year.

Changes in Debt & Other

The School's debt and other cash activities decreased by \$5 million in fiscal 2021, compared with a decrease of \$1 million in the prior year.

Because gifts, internally generated cash, and unrestricted reserves have been available and sufficient to finance capital activities, fiscal 2021 marked the School's 13th consecutive year with no new borrowings. Debt principal payments were \$7 million in fiscal 2021, consistent with the prior year.

Capitalization of endowment income—or cash used to purchase endowment units—was a \$6 million use of cash in fiscal 2021, up \$3 million from the prior year. In compliance with federal and state legal requirements, the School's objective is to spend as much of the endowment distribution as possible in any given year, according to the terms of each gift. Funds unspent as a result of gift restrictions are generally reinvested in the endowment.

In compliance with the law, HBS accesses the investment appreciation within existing endowment accounts when the terms of the gift require funds to be withdrawn at a rate higher than the University's payout rate in any given year. Decapitalization of endowment income—or cash drawn from endowment appreciation—was a \$1 million source of cash in fiscal 2021, compared with a \$2 million source of cash in fiscal 2020.

Ending Balance, Unrestricted Reserves

Approximately 53 percent of the School's revenues in fiscal 2021 came from HBP, Executive Education, and HBS Online—business units that are highly sensitive to the economy. Consequently, maintaining an ample balance of unrestricted reserves outside of the endowment is crucial to providing HBS with sufficient liquidity to finance ongoing campus renewal and expansion projects and to capitalize on emerging strategic opportunities through economic cycles over the long term.

Continuing its focus on generating strong cash from operating activities, HBS concluded fiscal 2021 with an unrestricted current use reserves balance of \$211 million, compared with \$174 million a year earlier. This level is substantially above the \$100 million in unrestricted reserves established by HBS as the School's long-term liquidity management target.

Statement of Activity & Cash Flows*

FOR THE FISCAL YEAR ENDED JUNE 30,

Revenues (in millions)	2021	2020	2019
MBA Tuition & Fees	\$ 113	\$ 136	\$ 140
Executive Education Tuition	81	146	222
HBS Online	76	58	43
Publishing	274	262	262
Endowment Distribution	184	173	162
Unrestricted, Current Use Gifts	41	37	40
Restricted, Current Use Gifts	19	23	28
Housing, Rents, Interest Income & Other	17	26	28
Total Revenues	\$ 805	\$ 861	\$ 925
Expenses			
Salaries & Benefits	\$ 386	\$ 375	\$ 359
Publishing & Printing	78	81	77
Space & Occupancy	64	71	72
Supplies & Equipment	10	12	13
Professional Services	46	59	72
Fellowships	53	57	51
University Assessments	21	26	26
Debt Service	2	3	3
Depreciation	46	45	46
Other Expenses	73	102	102
Total Expenses	\$ 779	\$ 831	\$ 821
Cash from Operations	\$ 26	\$ 30	\$ 104
Depreciation	46	45	46
Non-Cash Items	—	1	—
Cash Available for Capital Activities	\$ 72	\$ 76	\$ 150
Capital Expenses	\$ (22)	\$ (43)	\$ (38)
Change in Capital Project Pre-Funding	(14)	8	(3)
Use of Gifts for Capital Projects	6	5	6
Net Capital Expenses	\$ (30)	\$ (30)	\$ (35)
New Borrowings	\$ 0	\$ 0	\$ 0
Debt Principal Payments	(7)	(7)	(9)
Capitalization of Endowment Income	(6)	(3)	(2)
Decapitalization of Endowments	1	2	2
Other Non-Reserve Activity	7	7	(95)
Changes in Debt & Other	\$ (5)	\$ (1)	\$ (104)
Increase (Decrease) in Reserves	\$ 37	\$ 45	\$ 11
Beginning Reserves Balance	\$ 174	\$ 129	\$ 118
Ending Reserves Balance	\$ 211	\$ 174	\$ 129

Consolidated Balance Sheet

FOR THE FISCAL YEAR ENDED JUNE 30,

Assets (in millions)	2021	2020	2019
Cash	\$ 124	\$ 124	\$ 105
Current Use Reserves	211	174	129
Receivables, Loans, & Other Assets	243	221	215
Invested Funds:			
Endowment	4,915	3,799	3,675
Endowment Interest in Trusts Held by Others	211	167	169
Endowment Pledges	137	119	138
Undistributed General Investment Income	2	7	3
Current Use Investments	70	63	75
Current Use Pledges	104	122	145
Facilities, Net	738	762	766
Total Assets	\$ 6,755	\$ 5,558	\$ 5,420
Liabilities			
Deposits, Advances & Other	\$ 69	\$ 62	\$ 95
Deferred Revenue	206	191	183
Other Debt Owed to University	79	81	31
Building Debt	33	40	46
Total Liabilities	\$ 387	\$ 374	\$ 355
Net Assets			
Current Use Reserves	\$ 211	\$ 174	\$ 129
Endowment Funds	5,265	4,092	3,985
Current Use Funds	174	185	220
Unexpended Endowment Income	2	—	1
Student Loan Funds	11	11	10
Investment in Facilities	705	722	720
Total Net Assets	\$ 6,368	\$ 5,184	\$ 5,065
Total Liabilities + Net Assets	\$ 6,755	\$ 5,558	\$ 5,420

* In pursuit of greater comparability across the Harvard schools, the University has asked all the schools to report their net results in accordance with generally accepted accounting principles (GAAP) in the United States. In addition to results for fiscal 2021, the School's results for fiscal years 2019 and 2020 are presented in accordance with GAAP within the Statement of Activity and Cash Flows on the preceding page.

Five-Year Summary

FOR THE FISCAL YEAR ENDED JUNE 30,

Financial Data (in millions)	2021	2020	2019	2018	2017
Revenues	\$ 805	\$ 861	\$ 925	\$ 856	\$ 800
Expenses	779	831	821	766	731
Cash from Operations	26	30	104	90	69
Capital Investments	22	43	38	92	78
Building Debt Outstanding	33	40	46	55	64
Unrestricted Reserves	211	174	129	118	145
Endowment	5,265	4,092	3,985	3,787	3,472
Total Assets	\$ 6,755	\$ 5,558	\$ 5,420	\$ 5,208	\$ 4,821

MBA Program					
Applications	9,773	9,304	9,228	9,886	10,351
Percent Admitted	13%	13%	12%	11%	11%
Yield	87%	85%	89%	91%	91%
Enrollment	1,609	1,877	1,881	1,870	1,879
Tuition	\$ 73,440	\$ 73,440	\$ 73,440	\$ 72,000	\$ 63,675
Average Fellowship Aid per Student	\$ 41,806	\$ 42,225	\$ 42,034	\$ 38,959	\$ 37,312

Doctoral Programs					
Applications	995	797	748	864	915
Percent Admitted	3%	4%	5%	4%	4%
Yield	68%	87%	81%	64%	79%
Enrollment	129	133	131	134	132

Executive Education					
Enrollment	13,101	10,881	12,605	12,070	11,361

HBS Online					
Enrollment	39,566	29,192	19,568	12,936	9,142

Faculty					
Faculty Positions (full-time equivalents)	256	244	233	225	233
Teaching Materials	668	676	626	642	573
Research Articles on HBR.org	307	231	177	199	182
Books	16	15	14	11	14

Staff					
Staff Positions (full-time equivalents)	1,871	1,839	1,761	1,721	1,680

Publishing					
Cases Sold	15,392,000	15,209,000	14,539,000	15,062,000	14,859,000
Harvard ManageMentor Active Users	6,061,000	5,037,000	2,837,000	2,430,000	3,200,000
HBR.org Average Monthly Users	11,787,000	9,956,000	6,916,000	7,153,000	7,012,000

Harvard Business School is led by the Dean of the Faculty in conjunction with various advisory and oversight groups comprising faculty, staff, alumni, academics, and business practitioners. Harvard University appoints a Visiting Committee to review Harvard Business School's strategic goals and objectives and to provide advice and input to the Dean. The group meets biannually and reports to Harvard University's Board of Overseers.

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.

We welcome questions and comments from our readers. Please direct correspondence to Richard P. Melnick, Chief Financial Officer: rmelnick@hbs.edu or to the Office of the Dean: officedean@hbs.edu.

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