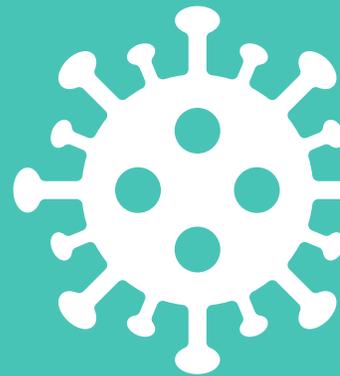




HARVARD | BUSINESS | SCHOOL

2020



ANNUAL REPORT

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FROM THE

DEAN

Dear Friends,

FY20 was a year unlike any other. The barriers that typically separate the key spheres of our lives—work and home, professional and personal—became porous and fuzzy. Yet the challenge we faced was crystal clear: delivering on our mission in the face of an emerging global pandemic. In this report, in addition to our deep dive into the School's financial health, you will see examples of how the HBS community approached this challenge with creativity and resolve.

Our commitment to making a difference in the world was evident on so many dimensions. *Harvard Business Review's* circulation climbed to 340,000, the highest in its 97-year history, evidence that the Publishing group continues to produce insights that shape management practice. The Business and Environment Initiative extended its wide-ranging efforts on climate change with an interactive exhibit exploring how it affects business innovations. The US Competitiveness Project leaned into the contentious political climate with a report detailing the structural failures in the US political system and how they are holding the country back from achieving much-needed progress.

The pandemic required us to confront a host of questions. What kinds of insights does a business school have to share on a medical crisis? How can a School whose learning model relies on intensive, in-person classroom discussions continue to operate in a remote world? How important is a physical campus in a virtual world? In each instance, we are finding the answers. Our capacity for innovation was never more important as when we transitioned from the classroom to online learning in the span of just two weeks. Our faculty's intellectual ambition has never been more apparent, as colleagues wrote new articles and cases, launched lecture series, and wrote opinion pieces on the impact of the pandemic on business and society. And none of this would have mattered, were it not for the adaptability of students, faculty, and staff to shift from doing everything on campus to doing most everything remotely, including important milestones such as doctoral thesis defenses, commencement, and reunions.

As I write this, I am mindful of the fact that the School has withstood other great challenges—wars, political strife, acts of terrorism—and not only survived, but often emerged even stronger. I am optimistic that in the years to come the School will be fundamentally changed for the better. And I am ever mindful that all of our efforts, past and future, are made possible by our incredible and generous alumni. For that support I am deeply grateful, as I know our next and new Dean, Srikant Datar, will be.

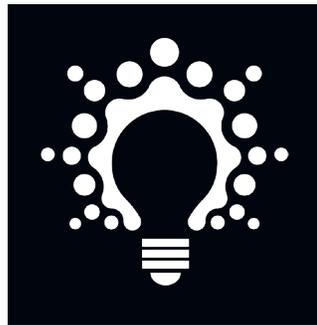
NITIN NOHRIA
DEAN OF THE FACULTY

THE YEAR IN REVIEW

FY20



The impact of the COVID-19 pandemic on Harvard Business School was immediate, starting with the cancellation of the FIELD Global Immersions in the MBA Program and moving quickly to a University-wide decision in March that students, faculty, and staff would transition to remote following Spring Break. Yet, the work of the School continued on in innovative and exciting ways.



HARVARD BUSINESS REVIEW HITS NEW MILESTONE

Harvard Business Review's paid circulation climbed to 340,000, the highest in its 97-year history. The gains have been driven by subscriptions—both digital and print, as well as new and renewals—which increased 8.4% from June 2018 to June 2019. In 2019, HBR introduced HBR Presents, a network of business podcasts curated by HBR editors that builds on its highly successful original podcasts: HBR IdeaCast, Dear HBR, and Women at Work. Other efforts include live case study events and editor-led conference calls for subscribers. HBR.org receives an average of 7 million unique visitors each month, and has more than 18 million social media followers and 4 million monthly podcast downloads.



STUDENTS ARRIVE

More than 9,000 applicants sought a place in the MBA Program and nearly 750 applicants in the Doctoral Programs; the acceptance rate for both was highly competitive, at 12% and 4.5%, respectively.

Fellowships were awarded to 825 MBA students, with an average fellowship of \$42,034 for the Class of 2020.

MBA Class of 2021

930

Students

9,228 Applications
12% Acceptance Rate
89% Yield

43%

Women

27%

Minority

37%

International

Incoming Doctoral Students

25

Students

748 Applications
4.5% Acceptance Rate
81% Yield

52%

Women

24%

Minority

48%

International



ART THAT ENGAGES

A residential campus has been central to the School's identity for nearly a century. To create a stimulating environment for the community, and with the generous support of alumni including Gerald Schwartz (MBA 1970) and Christian Ringnes (MBA 1981), contemporary art—including comics and cartoons, photography, paintings, prints, and mixed media—is acquired annually that imbues the campus with energy and encourages creativity and reflection. Additionally, three sculptures, on loan from the artists and their galleries, comprised the 2019–2020 Public Art Exhibit: *Migrating Pedmarks and Cloak-Wave Pedmarks* by Lynda Benglis, and *The Intermediary Family* by Bharti Kher. They join other sculptures that are part of a permanent collection.



NEW FACULTY

Twenty faculty members, including assistant professors, visitors, and practitioners, participated in Faculty START, an intense three-day orientation to the School. This annual program, led by Professor Ryan Buell and supported by the Division of Research and Faculty Development, provides an overview of Harvard Business School and a window into academic research, 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 more experienced colleagues.

Pictured at left:



Full Professor

Row 1:

Debora Spar, *Business, Government & the International Economy*



Assistant Professors

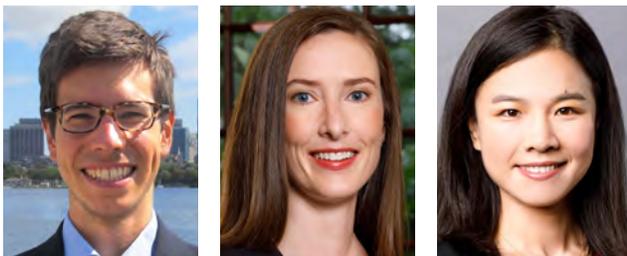
Row 2:

Tomomichi Amano, *Marketing*
Iavor Bojinov, *Technology & Operations Management*
Alexandra Feldberg, *Organizational Behavior*



Row 3:

Amit Goldenberg, *Negotiation, Organizations & Markets*
Jon Jachimowicz, *Organizational Behavior*
Raymond Kluender, *Entrepreneurial Management*



Row 4:

Himabindu Lakkaraju, *Technology & Operations Management*
Natalia Rigol, *Entrepreneurial Management*
Ishita Sen, *Finance*

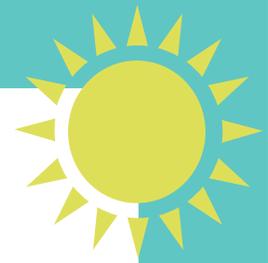


Row 5:

Marco Tabellini, *Business, Government & the International Economy*
Emily Truelove, *Organizational Behavior*
Shunyuan Zhang, *Marketing*

Row 6:

Yuan Zou, *Accounting & Management*



FACULTY PROMOTIONS

Pictured at left:

Full Professors

Row 1:

Nien-hê Hsieh, *General Management*

Sophus Reinert, *Technology & Operations Management*



Row 2 (left):

Raffaella Sadun, *Strategy*

Associate Professors

Row 2 (right):

Alison Brooks, *Negotiation, Organizations & Markets*



Row 3:

Prithwiraj Choudhury, *Technology & Operations Management*

Marco Di Maggio, *Finance*

Row 4:

Joshua Schwartzstein, *Negotiation, Organizations & Markets*

Christopher Stanton, *Entrepreneurial Management*



Row 5:

Ariel Stern, *Technology & Operations Management*

Boris Vallee, *Finance*





THE SHIFTING CLIMATE FOR BUSINESS

The Business and Environment Initiative moved the topic of climate change to center stage with an interactive exhibit exploring how it affects companies and the business innovations that can mitigate its impact or facilitate adaptation. The exhibit's aim was to shift the paradigm of “business as usual” by encouraging visitors to consider the role of business in addressing the current and future realities of climate change. It featured novel technologies that alumni, students, and faculty are developing to help confront this growing challenge. It also examined the current policy context and the role that business has played in shaping it—and can play going forward.



HBS ARCHIVES PRESENTS: THE CASE OF U.S. STEEL, 1930–1960

The U.S. Steel photograph collection, housed in Baker Library's Special Collections, was brought to life—and the public eye—through an exhibition, catalog, and website that launched in November. At a time when the steel industry, like today's technology giants, played a central role in the world economy, U.S. Steel employed photographs in a variety of public relations campaigns to instill public favor. The exhibit represents the talents of noted artists, photographers from the corporation's engineering corps, and local studios near company plants. Images convey the awe-inspiring nature of steel making and the interplay between worker and machine taking place within massive steel plants.



US COMPETITIVENESS PROJECT EXAMINES POLITICAL GRIDLOCK

The sixth annual report of the US Competitiveness Project reveals that structural failures in the United States political system have prevented meaningful progress on actions needed to improve US competitiveness. *A Recovery Squandered: The State of U.S. Competitiveness 2019* documents how the United States has wasted the decade-long expansion following the Great Recession by not addressing underlying impediments to US competitiveness. In addition to assessing the factors that have contributed to this situation, the report outlines the steps that must be taken to improve America's economic prospects for both workers and companies. The US Competitiveness Project, co-led by Michael Porter and Jan Rivkin, focuses on the roles that business leaders do and can play in promoting US competitiveness.



NEW LEADERSHIP AT THE HARVARD I-LAB

Matt Segneri was named the Bruce and Bridgitt Evans Executive Director of the Harvard Innovation Labs, a University-wide entity launched and run by Harvard Business School (HBS) that fosters entrepreneurial activities and interactions among students, faculty, alumni, and the surrounding community. A first-generation college student who received his A.B. and MBA degrees from Harvard, Segneri had been the director of the HBS Social Enterprise Initiative for five years prior. During that time, he served as co-lead of the HBS New Venture Competition; as an MBA Ombudsperson; and as a judge for and advisor to the President's Innovation Challenge, MassChallenge, and the MIT \$100K Competition. Segneri was also instrumental in establishing the Bloomberg Harvard City Leadership Initiative, a collaborative effort across the Harvard Business School and Harvard Kennedy School and an innovative example of entrepreneurship within academia.



DOCTORAL STUDENT RESEARCH AWARDS

Six 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 Doctoral Research

(Named in honor of Hansjörg Wyss, MBA 1965)

Leroy Gonsalves (Organizational Behavior):

the dynamics of legal and regulatory compliance in organizations.

Dafna Goor (Marketing): branding, luxury marketing, and authenticity.

J. Peter Scoblic (*pictured*) (Management): how managers formulate strategy, given the uncertainty of the future.

Martin Award for Excellence in Business Economics

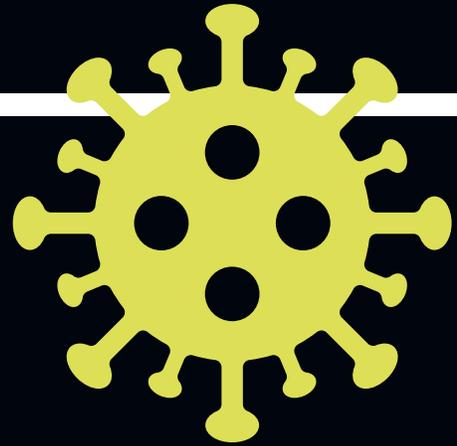
(Established by Roger Martin, MBA 1981)

Xiang Ding (Business Economics): the implications of firm behavior in a globalized and technology-intensive world.

Ravi Jagadeesan (Business Economics): the design of market-clearing mechanisms and tax systems.

Michael Thaler (Business Economics): why people form biased and polarized beliefs about the world around them.

THE EMERGING COVID-19 PANDEMIC



FIELD GLOBAL IMMERSIONS

The Field Global Immersion (FGI) course, a staple of the MBA required curriculum since its launch in January 2012, was canceled in early March—a harbinger of the eventual scope and impact of the coronavirus pandemic. In February, with outbreaks already underway in China and South Korea, FGI sections in these locations were relocated to new cities. But it soon became clear, given rapidly changing travel restrictions and uncertainty about the progression of the disease, that it would be infeasible to ensure the safety and well-being of the more than 1,000 MBA students, faculty, and staff involved in the year's program.

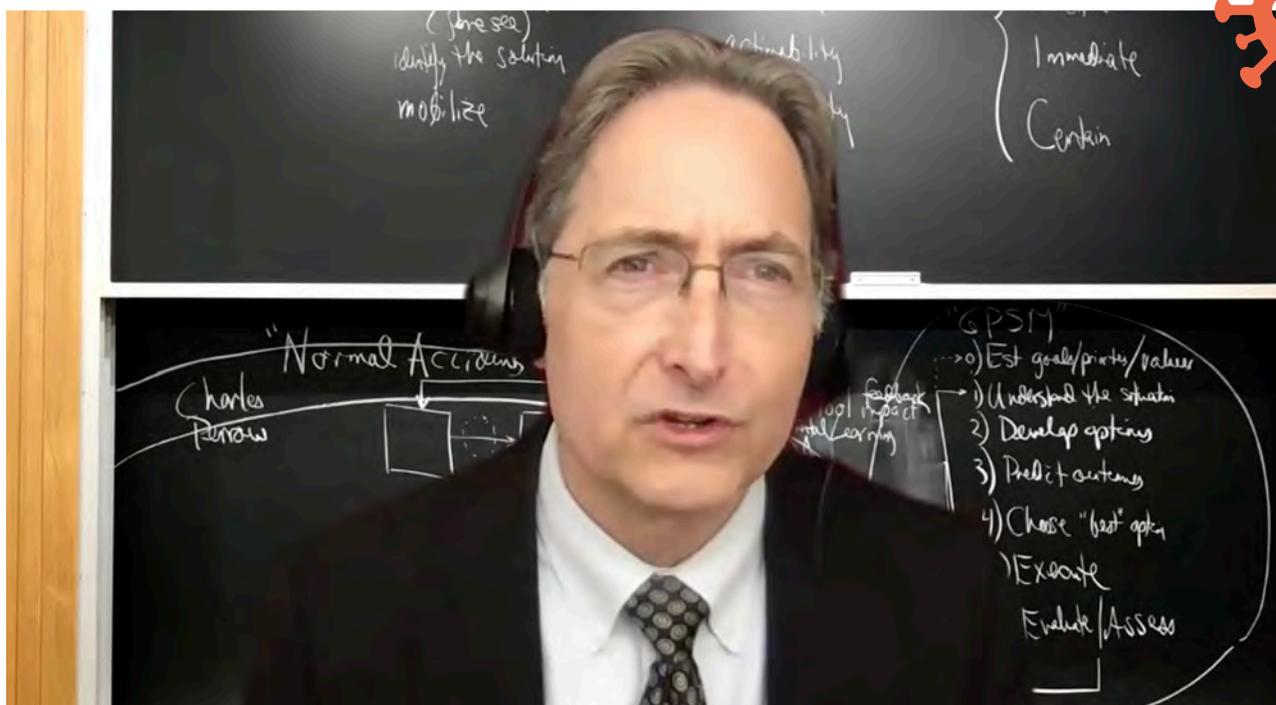
EXECUTIVE EDUCATION

Given rapidly changing travel and quarantine restrictions, Executive Education programs were canceled first in international locations, including the Middle East and Asia, and then in Boston, as well. By June, the group had made plans to pivot to online programming, including both modules of longer offerings, such as the General Management Program, and shorter topic-focused programs, such as Leading Difference for High Performance.

THE MOVE TO REMOTE

On Tuesday, March 10, Harvard President Larry Bacow announced a University-wide transition to virtual instruction beginning immediately after spring break—in less than two weeks. A virtual teaching task force was charged with creating an online teaching and learning environment to parallel the discussion and engagement of a typical in-person classroom. Myriad work streams focused on ensuring that faculty and staff had the laptops, cameras, and headphones needed to support Zoom-based classes; identifying and training Online Learning Facilitators assigned to each class who would support the technology interface; and helping faculty develop teaching plans that leveraged the new platform. “Virtual Day,” on March 23, unfolded relatively seamlessly, with students and faculty alike giving the experience high marks.

While faculty and staff largely moved to remote work for the remainder of the semester, essential staff remained on campus to support the many MBA and Doctoral students who call HBS home for the duration of their program.



VIRTUAL PROGRAMMING FAST-TRACKED FOR ALUMNI WORLDWIDE

HBS alumni took advantage of rapidly developed, faculty-led virtual programming as part of the School's efforts to further lifelong learning.

11,812

Alumni attended virtual programs

2,223

Alumni attended three or more programs

Programming included:

Crisis Management for Leaders

A Five-Part Series, 24 MAR–10 APR

COVID-19 as a Novel Event and Risk Management Framework

Dutch Leonard (pictured) & Bob Kaplan

Coping with Sudden Changes in Cash Needs and Availability

Fritz Foley & Malcolm Baker

Structuring the Organizational Response

Amy Edmondson & Dutch Leonard

Recognizing and Managing Novel Risks in Your Supply Chain

Ananth Raman & Bob Kaplan

Case Discussion: Chilean Mining Rescue and Summary

Amy Edmondson & Dutch Leonard

COVID-19, Global Markets & Global Macroeconomic Policy Responses

A Two-Part Series, 14 & 17 APR

Financial Markets and the Fed in the COVID-19 Pandemic

Robin Greenwood, Victoria Ivashina & Adi Sunderam

Macroeconomic Policy Responses to the COVID-19 Pandemic

Alberto Cavallo, Huw Pill, Dante Roscini & Matt Weinzierl



ROCK CENTER HOLDS 23RD ANNUAL NEW VENTURE COMPETITION

The competition's virtual finale, held on April 16, 2020, featured 20 student and alumni finalist teams vying for \$300,000 in cash and in-kind prizes. The top prize in the student business, student social enterprise, and alumni tracks was \$75,000 each.

241

Teams

168

Judges

\$300,000

Cash Prizes

Student Business Track Winners

Dublier Grand Prize

Alife Health, Inc.

Helps doctors select the healthiest embryo(s) for assisted reproductive therapy.

Frontier Technology Prize

(for promising tech and science startups)

Tune Bio

Unlocks next-generation gene therapies through regulatory element engineering.

Satchu-Burgstone Runner-Up Award

(split equally between two teams)

Darza

A digitally native, vertically integrated e-commerce fashion brand that provides the best online shopping fashion experience for customers in the Middle East and North Africa.

OnRamp

A customer partnership platform helping B2B SaaS companies provide world-class onboarding.

Student Social Enterprise Track Winners

Peter M. Sacerdote Grand Prize

Mosaic

Provides a complete picture of a patient's health data across the continuum of care.

Sacerdote Runner-Up Award

DreamworldVR

Combats loneliness for isolated pediatric patients using virtual reality technology.

Alumni Track Winners

Grand Prize

Foodology Inc.

The largest virtual restaurant group in Latin America.

Runner-Up Award

Vena Vitals

Improves cardiovascular health through continuous blood pressure monitoring.



HBS LIVE ONLINE CLASSROOMS OPENED

The School's efforts to extend its reach through online teaching and learning took a big step forward with the launch of two technologically advanced classrooms in Cumnock Hall. The School launched its first online classroom in 2014 and has been refining and optimizing the virtual program experience ever since, reflecting the input and experience of tens of thousands of participants. The Harvard Business School Live Online Classroom is a real-time, interactive online classroom that brings the case method to life in a digital environment. The faculty teach from the physical classroom while participants connect from computers anywhere in the world, engaging in real time. Sessions are expertly produced using still and roaming cameras—creating the perspective for participants of being in a real classroom, seeing both the faculty members and their peers. In a time when virtual learning has taken center stage, the new classrooms will be in high demand.



HARVARD BUSINESS SCHOOL CELEBRATES 110TH CLASS DAY & COMMENCEMENT

For the first time ever, Harvard Business School held its Class Day and Commencement exercises virtually via livestream, with 928 students receiving their MBA degrees. Nearly 90% of students had received a job offer by the time of graduation, and three months later, that number had risen to 95%.

Nine students were awarded the Doctorate in Business Administration. Additionally, 14 students earned their PhD through a joint program with Harvard's Faculty of Arts and Sciences in the fields of business economics, health policy, and organizational behavior. Nineteen graduates went on to careers in academia, and four took positions in industry.



FOUR FACULTY MEMBERS RECEIVE CLASS OF 2020 TEACHING AWARDS

Joshua Margolis, Kristin Mugford, Sophus Reinert, and Ting Zhang (*pictured at left, top to bottom*) were honored by the MBA Class of 2020 for their excellence and dedication to teaching, and for the positive impact they had both in and out of the classroom.



Joshua Margolis

Leadership and Organizational Behavior, Required Curriculum

"Professor Margolis is a once-in-a-lifetime professor who, through the case method, emphasized the importance of truly listening to others and how to be a kind yet effective teacher."



Kristin Mugford

Creating Value Through Corporate Restructuring, Elective Curriculum

"Beyond her mastery of course content, Professor Mugford's infectious enthusiasm and dedication were inspiring. She managed to make a technical class very rewarding, accessible, and fun."



Sophus Reinert

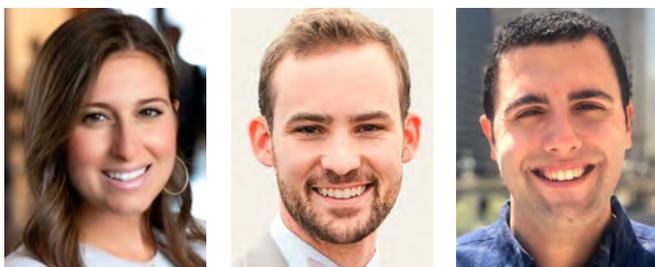
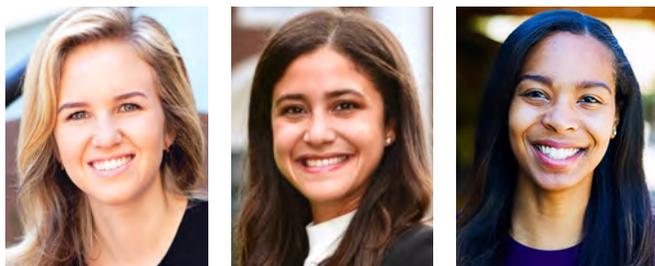
Globalization and Emerging Markets, Elective Curriculum

"Professor Reinert inspired and challenged us to grapple with the deep struggles and staggering successes of some of the most prominent to most peripheral nations in the world."

Ting Zhang

Leadership and Organizational Behavior, Required Curriculum

"I was always excited to go to her class, and I admired her for the way she brought energy, preparation, and passion to everything she did, in and out of class. She invested so much time in our section."



DEAN'S AWARD

The Dean's Award recognizes the extraordinary achievements of graduating students who have had a positive impact on Harvard Business School, Harvard, and our broader communities through exceptional leadership and engagement. In 2019, nine recipients were named.

Pictured at left:

Row 1:

Rachel Brown, *Chief Events Officer, Student Association*
Connor Cash, *Co-President, Student Association*
Robbie Dixon, *Head Senator*

Row 2:

Holly Fetter, *Co-Chair, Diversity, Equity & Inclusion Council*
Gaby Goldstein, *Co-President, Student Association*
Alexxis Isaac, *Co-Chair, Diversity, Equity & Inclusion Council*

Row 3:

Melanie Sperling, *Chief Community Officer, Student Association*
Ben Sullivan, *Chief Operating Officer & Chief Financial Officer, Student Association*
Billy Tabrizi, *Executive Board, Student Association*



WYSS AWARD

Kate Barasz and Robin Ely received the 13th annual Wyss Award for Excellence in Doctoral Mentoring. Each was recognized for their collaboration, feedback on written work, advice on academia, and proactive engagement. Runners-up were Ryan Buell and Lakshmi Ramarajan.

Pictured at left:

Kate Barasz
Robin Ely, *Professor, Organizational Behavior*



LEADERSHIP FELLOWS

The Leadership Fellows Program strives to develop a network of HBS graduates with cross-sector experience who are committed to addressing societal issues throughout their careers. Fellows—more than 241 since the program's inception in 2001—have worked at organizations including the City of Boston Mayor's Office, Harlem Children's Zone, Mercy Corps, Whitney Museum of Art, World Wildlife Fund, and the US Department of Education.

Pictured at left:

Row 1:

Andrew Baxter, *Environmental Defense Fund*
Mimi Disipio, *Whitney Museum of American Art*
Jade Enns, *Lincoln Center for the Performing Arts*

Row 2:

Sam Fell, *Sesame Workshop*
Akash Gupta, *Juilliard School*
Rebecca Hansen, *Boston Planning and Development Agency*

Row 3:

Alexxis Isaac, *City of Boston, Mayor's Office*
Christine Keung, *City of San Jose, Mayor's Office*
Leonardo Leal, *Draper Richards Kaplan Foundation*

Row 4:

Mikal Lewis, *State of Connecticut, Governor's Office*
Stefanie McDermott, *Michael J. Fox Foundation for Parkinson's Research*
Sarika Mendu, *City of Detroit, Mayor's Office*

Row 5:

Mark Molewyk, *Massachusetts Bay Transportation Authority*
Ratnika Prasad, *Environmental Defense Fund*
David Reiff, *Social Finance*

Row 6:

Perri Smith, *Boston Medical Center*
Liz Su, *Boston Children's Hospital*
Wendy Ying, *Massachusetts Bay Transportation Authority*

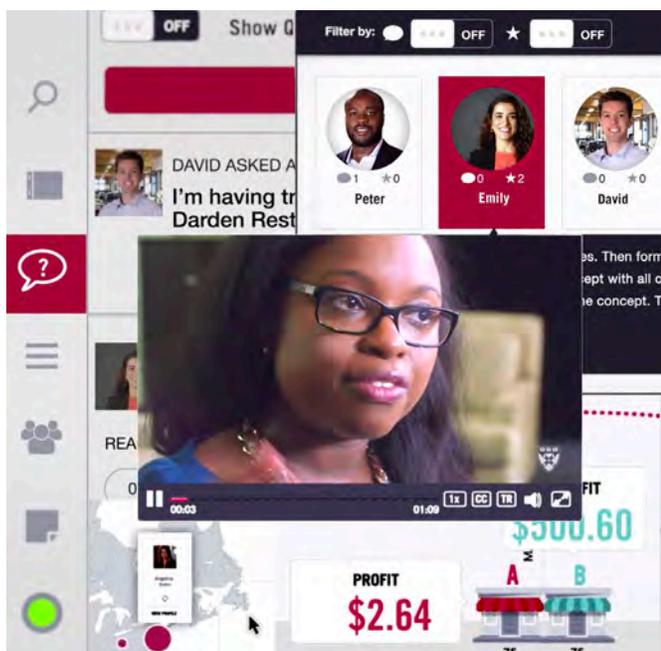




HARVARD BUSINESS SCHOOL ONLINE

The School's online learning platform, HBS Online (originally called HBX), engaged nearly 10,000 new learners in FY20 for a cumulative total since inception in 2014 of 29,192. Course completion rates, typically quite low for virtual programs, remain at 86%. New programs launched during this time include Leadership Principles (Joshua Margolis and Tony Mayo), Global Business (Forest Reinhardt), and Alternative Investments (Victoria Ivashina, Randy Cohen, and Arthur Segel).

From April through June, in response to the pandemic, HBS Online offered a free Business Lessons program; more than 20,000 unique users logged in to engage with the content.



IN MEMORIAM



Clayton M. Christensen
Kim B. Clark Professor of Business Administration



John H. McArthur
Dean & George F. Baker Professor of Administration, Emeritus



Bruce R. Scott
Paul Whiton Cherington Professor of Business Administration, Emeritus

Anisha Atluri
MBA 2021, Section F

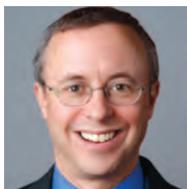
Kile King
Assistant Director, Research Administration & Compliance

END

FINANCIAL HIGHLIGHTS

FY20

- Operating revenues decreased 7 percent to \$861 million, while operating expenses increased 1 percent to \$831 million.
- HBS Online revenue increased year over year, Harvard Business Publishing revenue remained flat, and Executive Education revenue declined.
- The major areas of expense growth were salaries and benefits and fellowships.
- New gifts and pledges totaled \$75 million, compared with \$150 million in fiscal 2019.
- The return on the University's endowment was 7.3 percent, compared with 6.5 percent in fiscal 2019.
- The value of the School's endowment (after the net impact of distributions from the endowment and the addition of new gifts) increased to \$4.1 billion, from \$4.0 billion a year earlier.
- Capital investments in campus facilities and new construction increased to \$43 million, from \$38 million in fiscal 2019.
- The School generated an operating surplus of \$30 million, compared with \$104 million for the prior year.
- HBS ended fiscal 2020 with an unrestricted reserves balance of \$174 million, compared with \$129 million a year earlier.
- The School's total net assets increased to \$5.2 billion, from \$5.1 billion at the end of fiscal 2019, primarily reflecting the impact of growth in the market value of the endowment.



FROM THE

CHIEF FINANCIAL OFFICER

Our fiscal 2020 financial performance tells a story with two distinct chapters: July 2019 through mid-March 2020, when HBS enjoyed strong results and advanced its core educational and research mission—as it had for many years before. And then mid-March through the end of June, when the School had to balance those priorities with the rapidly evolving dynamics and financial pressures of COVID-19.

Almost overnight, the pandemic disrupted traditional in-person learning and created the need to operate in new and sometimes unfamiliar ways.

Academically, HBS adapted quickly. The School's leadership prioritized protecting the health, safety, and well-being of the HBS community. Once Harvard announced it would move classes online for the final weeks of the semester, more than 100 faculty members received intensive training, enabling the MBA and Doctoral Programs to resume virtually after spring break ended.

Additionally, HBS faculty members mobilized to generate timely new research exploring how organizations were managing through a dramatic confluence of events—a global health crisis, worldwide economic stress, and heightened demand for environmental and social change—to transition employees to remote work, attract new customers, and spur innovation. The faculty produced nearly 700 cases and course development materials in fiscal 2020, along with more than 400 books, articles, and working papers.

Careful planning helped mitigate the financial impact of COVID-19 on the School. In the months leading up to fiscal 2020, and long before the coronavirus was on the horizon, a team of HBS faculty and staff met to discuss what steps might be required in the event of an economic slowdown. With lessons learned from how HBS responded to the Great Recession, they developed a playbook that included not

only strategies for containing costs but also opportunities for new growth. The team was guided by the desire to ensure that, in the face of a recession, the School's educational programs and faculty research would remain strong. This work, combined with multiyear financial planning, frequent reforecasting, and regular updates on key metrics, built a shared understanding of the School's financial status and community readiness to act when needed.

FISCAL 2020 FINANCIAL SUMMARY

Total revenues in fiscal 2020 were \$861 million, down 7 percent from the prior year. The decline primarily reflected the decision to pause the delivery of Executive Education programs from mid-March through the end of June as a result of COVID-19. Total expenses increased 1 percent to \$831 million, resulting in a net margin contribution of 3.5 percent, compared with 11.2 percent in fiscal 2019. Cash from operations—the School's operating surplus—came in at \$30 million versus \$104 million in fiscal 2019.

The ability to generate a surplus—despite the unprecedented events late in the fiscal year—speaks to the diversity of our revenue streams, our conservative operating philosophy, and the versatility of our economic model. With the duration and extent of COVID-19 still uncertain, each of these elements will be essential as the School continues to adapt to the challenges of the year ahead.

THE HBS ECONOMIC MODEL

HBS is an institution built on participant-centered learning. At the center of this equation is the School's faculty, more than 250 individuals who are passionate about applying their research to shape the practice of management and educate and inspire new generations of leaders. Our faculty members thrive on engaging directly with managers, entrepreneurs, and C-level executives to learn what makes various businesses succeed or fail.

Knowledge gained by the faculty in the field is core to the learning experience, as it generates new research, including course materials. It also drives the School's economic model. Programs and products offered through Executive Education, Harvard Business Publishing (HBP), and Harvard Business School Online (HBSO) leverage the intellectual capital created by the faculty—including case studies, seminars, books, articles, and online content—to educate leaders and influence the practice of management on a global scale.

Fellowships (in millions)	MBA	Total*
FY 20	\$ 40	\$ 57
FY 19	38	51
FY 18	37	50
FY 17	36	48
FY 16	34	47

* Includes Doctoral Programs and Executive Education

What distinguishes the HBS economic model among Harvard University's 11 graduate and professional schools is that faculty research is largely self-funded. The earned income generated by Executive Education, HBP, and HBSO, supplemented by revenues from MBA tuition and alumni gifts, provide a virtuous circle of research funding that enables the School to execute on its mission over the long term.

In the four years prior to fiscal 2020, a strong cash position enabled HBS to invest in its endowment reserve. Unlike alumni gifts to the endowment, which are restricted mainly to perpetual activities such as the granting of fellowships and professorships, income from the internally generated funds invested in the endowment is unrestricted.

Given the economic uncertainty and market volatility, we elected to hold our fiscal 2020 operating surplus in cash,

rather than transfer any portion of the surplus to the endowment reserve. As a result, HBS ended the fiscal year with \$174 million in unrestricted reserves held outside of the endowment. This compares with \$129 million in unrestricted reserves in fiscal 2019.

HBS strives to be a well-run organization that embodies the practical skills, tools, and frameworks taught across the School's academic programs. Transparency is essential to achieving this goal, which is why our Annual Report includes a detailed Supplemental Financial Information section beginning on page 26. The balance of this letter discusses the School's fiscal 2020 financial performance at a strategic level, as well as our financial forecast for fiscal 2021.

FISCAL 2020 REVIEW

After a record year in fiscal 2019, total revenue declined \$64 million in fiscal 2020. The shortfall resulting from the

Investment in Research (in millions)	
FY 20	\$ 131
FY 19	152
FY 18	144
FY 17	136
FY 16	131

pause in Executive Education programming after the pandemic was partly offset by increased revenue from HBSO, which continues to scale rapidly. Revenue from HBP remained flat with the prior year.

For HBP, fiscal 2020 reflected the first full year of revenue from a new tiered subscription strategy that drove global subscribership across the group's flagship publication, *Harvard Business Review*. Advertising revenue also grew year over year, as did the HBR Analytics Service. This new offering is tapping into the demand for unbiased market research on key business trends and opportunities.

HBSO posted a double-digit revenue increase from the prior year. The group expanded its portfolio of courses, reaching more than 29,000 participants in fiscal 2020 and generating positive cash from operations and an operating surplus for

the second consecutive year. To help college students become fluent in the language of business and finance, the group offered its Credential of Readiness (CRe) program at a significant discount to those who had lost jobs or internship opportunities as a result of the pandemic.

Prior to the pandemic, Executive Education launched several new programs, covering topics such as workforce transformation, fintech innovation, and succeeding as a strategic CFO. The group also initiated the delivery of three cohorts of its global Senior Executive Program in India, China, and the Middle East. Beginning in mid-March, Executive Education moved to an entirely virtual model, leveraging two new virtual Live Online Classrooms (LOCs) built in Cumnock Hall.

The School's annual endowment distribution for fiscal 2020 increased 7 percent from the prior year to \$173 million, amounting to 20 percent of total revenues. The HBS endowment consists of more than 1,000 discrete funds established over

growth reflected the University's distribution rate and the size of the endowment, including new gifts from alumni as well as transfers from the School to the endowment reserve. While the endowment is a key financial asset and the School's largest source of savings, our economic model has enabled us to be less reliant on endowment income than the University's other schools.

MBA tuition and fees declined 3 percent, or \$4 million, for the fiscal year to \$136 million. Much of the decrease is directly attributable to COVID-19, which prompted the cancellation of the FIELD Global Immersion, a required semester-long course that culminates in travel to a global partner company; all students received refunds. As part of the transition to concluding the spring semester in a remote learning mode, the School provided funds to cover technology purchases, printing, and other costs associated with participation in online classes for all students.

Publishing Revenue (in millions)

FY 20	\$ 262
FY 19	262
FY 18	240
FY 17	221
FY 16	217

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.

Revenue from current use gifts declined 12 percent in fiscal 2020 to \$60 million, from \$68 million in the prior year. As this was the second year following the conclusion of the HBS Capital Campaign, we anticipated a decrease in the overall level of current use giving. 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.

As we expected, HBS benefited from nearly 7 percent growth in endowment distribution income in fiscal 2020. This

Executive Education Tuition (in millions)

FY 20	\$ 146
FY 19	222
FY 18	207
FY 17	191
FY 16	176

As summer approached, and the prolonged nature of COVID-19 became clear, the School also stepped in to help MBA students navigate a challenging job market. As the economic crisis worsened, internships and other summer employment opportunities rapidly began to shrink. HBS significantly expanded the funding for its long-standing Summer Fellows Program, which supplements salaries for students taking positions in entrepreneurial organizations, social enterprises, and other non-traditional sectors.

HBS is continuing to innovate across the MBA Program, offering unique opportunities that position students at the intersection of science, technology and management. In fiscal 2020, the School enrolled its first group of students in the new MS/MBA Biotechnology program and graduated the first cohort in a similar joint degree program in engineering.

The School bears the majority of the operational and staff

expenses required to support these joint degree programs and shares a portion of the MBA tuition with the partnering Harvard schools. We are fortunate to have generous support from HBS alumni, whose endowment gifts have helped to offset the financial impact to the School.

The Doctoral Programs moved classes online at the same time as the MBA Program. The impact of COVID-19 was small in fiscal 2020, because offers of admission to new doctoral students and job placement for graduating doctoral students were largely completed. Year-to-year metrics are therefore consistent.

After many years of extensive capital activity on campus, including the construction of several new buildings, in fiscal 2019 HBS shifted its focus to renewal and maintenance projects. Fiscal 2020 capital expenses increased to \$43 million from \$38 million in the prior year. The most significant project was the build-out of the two HBS Live Online Classrooms.

IT Investment (in millions; excludes capital expenses)

FY 20	\$ 96
FY 19	87
FY 18	82
FY 17	85
FY 16	85

FISCAL 2021 OUTLOOK

HBS is a community built on the diverse perspectives, backgrounds, and experiences of its faculty, students, and staff. As fiscal 2020 ended, the death of George Floyd, coming after similar killings of countless other Black Americans, spurred global protests for racial justice. On the School's campus, Dean Nitin Nohria formed an Anti-Racism Task Force composed of faculty, staff, students, and alumni to develop ideas for how the HBS might advance racial equity.

In September 2020, that effort led to the release of the School's Action Plan for Racial Equity. It sets out concrete steps to attract additional Black talent across the entire HBS community, develop research and course material designed to advance racial equality in business, and influence the broader business community to promote racial equity, among other initiatives. The School has committed \$25

million over a 10-year period to support this effort and will seek further support from donors to sustain the plan over time.

In light of the widespread crises that have gripped America and the world over the past year—racial inequality, the pandemic, and global economic instability—the MBA Program has strengthened its commitment to a diverse and engaged HBS community. To ensure that applicants have the appropriate resources to succeed at the School, the MBA Program plans to increase its financial aid resources, launch a new one-year COVID-19 Hardship Fund, and introduce a new Childcare Scholarship Fund.

HBS has long been conservative in its approach to budgeting revenue and expenses, and that philosophy is especially true as we look ahead to the remainder of the current fiscal year. The School's fiscal 2021 budget assumes that total revenues will decline approximately 12 percent from the \$861 million reported for fiscal 2020. Combined revenue

Capital Investment (in millions)

FY 20	\$ 43
FY 19	38
FY 18	92
FY 17	78
FY 16	113

from HBP, Executive Education, and HBSO is expected to decrease by a similar percentage. Given the sharp decrease in revenue, the School expects to incur a significant operating deficit for the fiscal year.

Restricted and unrestricted current use gifts, which accounted for 7 percent of our total revenues in fiscal 2020, will remain integral to the School's financial health this year. The School's ability to innovate in its curricula, support the faculty's ambitious research, and invest in digital transformation depends on the HBS community's continued support.

We expect HBS to benefit from mid-single digit growth in the endowment distribution for fiscal 2021.

Moving down the income statement to operating expenses, our fiscal 2021 financial plan anticipates a 1 percent decline in the School's total spending compared with fiscal 2020. A projected increase in professional services is

expected to be largely offset by declines in other areas.

The School's total capital budget for fiscal 2021 is \$21 million, much of which already has been allocated to physical plant upgrades to enable hybrid classes, where some students are in-person and others participate remotely.

HBS operates at a scale unique among leading business schools. In an average year, the first- and second-year MBA classes comprise about 1,800 students in total. In fiscal 2019, more than 12,000 individuals participated in an Executive Education program.

In the short term, the pandemic will make operating at capacity difficult. In the spring, MBA Program leadership allowed all students the choice of deferring or taking a leave of absence, and a number of students took this path. As a result, revenue from MBA tuition and fees is projected to decline in fiscal 2021. Similarly, in Executive Education, pivoting to a virtual format and developing strategies to

capital. In that sense, the School's reserves are a multi-generational asset that can be invested in the future priorities of the School in the decades ahead.

In summary, while the School's long-term financial health remains strong, we are not depending entirely on our reserves to help navigate HBS through the near-term challenges caused by COVID-19. Instead, the School will remain nimble. We will continue to focus on delivering the highest quality educational programs and research, while making the prudent decisions necessary to return to breakeven as soon as possible and generate consistent financial results in the years ahead.



RICHARD P. MELNICK, MBA 1992
CHIEF FINANCIAL OFFICER
OCTOBER 1, 2020

Building Debt Outstanding (in millions)

FY 20	\$ 40
FY 19	46
FY 18	55
FY 17	64
FY 16	71

leverage online platforms for customized offerings will take time. Revenue from Executive Education, then, also is expected to decline in fiscal 2021.

The School will need to invest significantly in diagnostic testing the build out of hybrid classrooms, improving building HVAC systems, signage and other measures to keep the School community safe as the campus continues to reopen. The total investment is estimated at \$25 million.

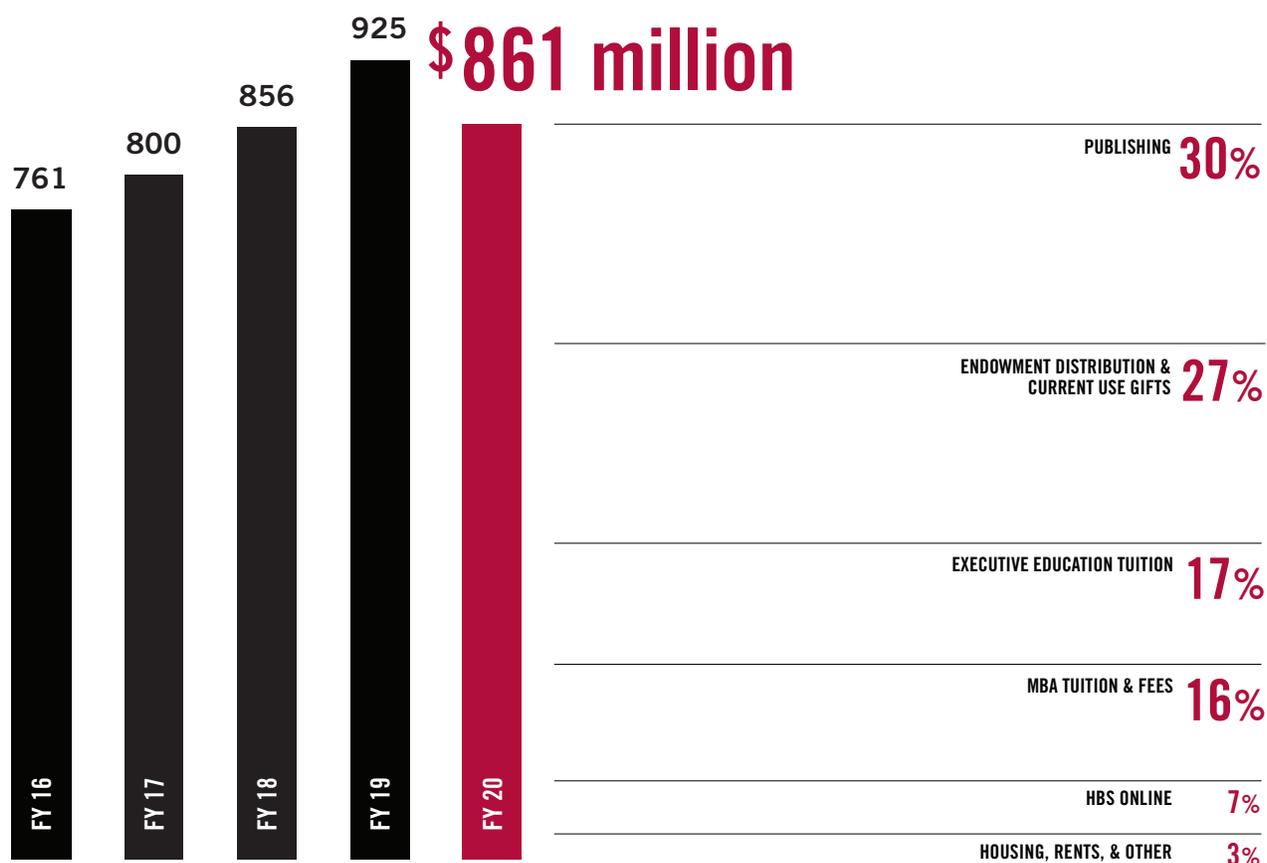
The School has sufficient capital, in the form of unrestricted reserves held inside and outside of the endowment, to make the necessary investments over the short and long term. During periods of global economic turbulence, these reserves serve as a rainy-day fund that can help the School navigate through a revenue shortfall or operating deficit. At the same time, we continue to be focused on the School's core mission. This requires us to be good stewards of our

Harvard Endowment Returns

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
FY 11	21.4

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 (HBSO); and philanthropic revenues (including current use gifts and distribution from the endowment).

In fiscal 2020, the School's total revenues decreased by \$64 million, or 7 percent, to \$861 million from \$925 million in the prior year. The decrease primarily reflected the impact of COVID-19 on Executive Education, which paused the delivery of programs beginning in mid-March. The top-line decrease was partly offset by HBSO, which generated record revenue in fiscal 2020.

MBA Tuition & Fees

Student tuition and fee revenue from the MBA Program decreased to \$136 million from \$140 million in fiscal 2019. First-year MBA tuition in fiscal 2020 was \$73,440, held flat with fiscal 2019. In fiscal 2020, the School refunded \$4.7 million of tuition to first-year students because of the cancellation of the FIELD Global Immersion course and travel as a result of COVID-19. Combined tuition and fees for fiscal 2020 were at the lower end of the seven peer schools tracked by HBS and amounted to 16 percent of the School's total revenues.

Harvard Business Publishing

Three of HBP's five market-facing groups, *Harvard Business Review*, Higher Education, and Advertising, delivered year-over-year revenue growth in fiscal 2020. This increase was offset by lower revenue from the Press and Corporate Learning. As a result, total publishing revenue remained flat with fiscal 2019 at \$262 million.

International revenue continued its steady growth, increasing 3 percent and representing 39 percent of the group's total annual sales in fiscal 2020.

Fiscal 2020 was the first full year of a multi-tiered *Harvard Business Review* subscription offer launched in fiscal 2019 that enables a digital, digital and print, or premium subscription. As a result, HBR group sales increased 9 percent year over year. Paid circulation of 340,000 was consistent with the prior fiscal year. Through its online presence, HBR.org, *Harvard Business Review* offered content on global issues such as COVID-19 and the protests for racial justice. This content, together with new podcasts, special issues, sponsored products, virtual conferences, and live streaming shows, attracted a record monthly average of nearly 10 million visitors to the site.

Higher Education sales of course materials grew 3 percent from fiscal 2019. As an additional benefit to instructors, the group launched Inspiring Minds, an editorial section of the HBP website featuring practical advice and strategies from a broad range of HBS and external contributors.

Revenue from Corporate Learning was down 2 percent in fiscal 2020. During the year, HBP completed six topic updates for Harvard ManageMentor®, which provides organizations with leadership development content.

Revenue from the Press, which relies on sales at airports, retail outlets, and other brick-and-mortar locations, declined 10 percent from fiscal 2019. COVID-19 significantly reduced consumer traffic at those locations, which trimmed book sales and prompted merchants to return unsold stock.

Total HBP revenue amounted to 30 percent of the School's total revenues in fiscal 2020, two percentage points higher than in fiscal 2019.

Executive Education

Executive Education tuition decreased by \$76 million to \$146 million in fiscal 2020 from \$222 million in the prior year.

Prior to mid-March, Executive Education had enjoyed a strong year, completing four new focused programs in addition to its continuing offerings; custom programs for clients in industries including media and entertainment, the environment, and health care; and international programs in India, China, and the Middle East.

Total Executive Education tuition revenue accounted for 17 percent of the School's total revenues in fiscal 2020, compared with 24 percent of total revenues in fiscal 2019.

HBS Online

HBSO continued to gain momentum in fiscal 2020, posting its second consecutive operating surplus since its inception in fiscal 2014. The group's operating surplus more than doubled to \$10.2 million on a 35 percent increase in revenue, which grew to \$58 million from \$43 million in fiscal 2019.



CASH RECEIVED FROM GIFTS (in millions)

Expanding its portfolio with new programs, HBSO launched an Alternative Investments course and a leadership program based on lessons learned from the expeditions of explorer Ernest Shackleton. During the year, the group reached more than 29,000 asynchronous participants across the portfolio.

As part of its pandemic response, HBSO provided its Credential of Readiness (CORe) program at a discount to more than 1,000 college students who had lost jobs or internship opportunities because of COVID-19. Additionally, the group offered 10 hours of free business lessons. The offer received an overwhelming response, with more than 36,000 participants.

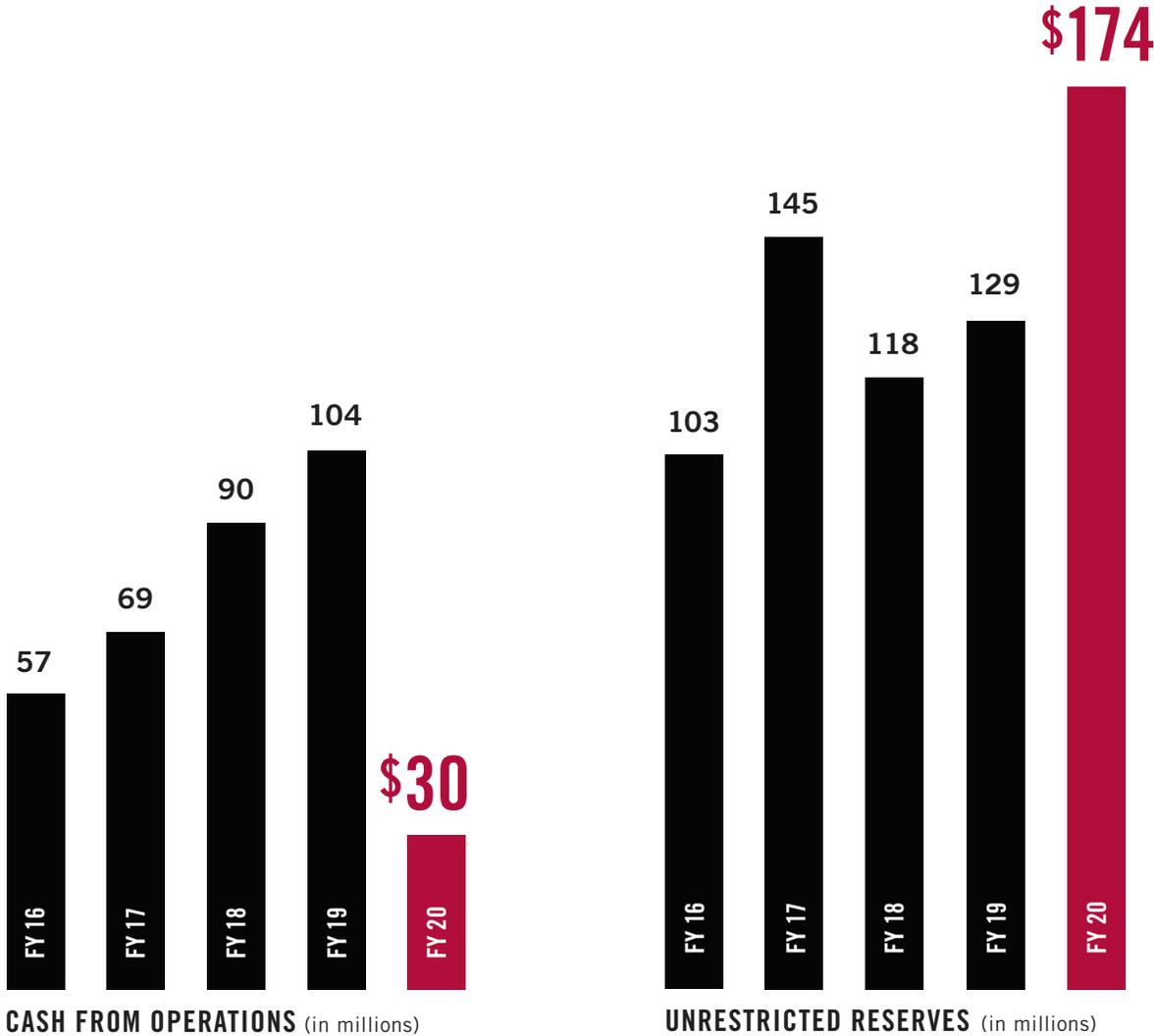
Fiscal 2020 also marked the second full year of the Harvard Business Analytics Program, a certificate program for executives that has attracted more than 900 participants since inception.

Total HBSO revenue amounted to 7 percent of the School's total revenues in fiscal 2020, compared with 5 percent for the prior year.

Gifts & Endowment

Philanthropic revenue has long been vital to sustaining the School's annual operations. In fiscal 2020, total revenue from the School's three philanthropic sources—distribution from the endowment, unrestricted current use gifts, and restricted current use gifts—increased to \$233 million from \$230 million in fiscal 2019. This revenue amounted to 27 percent of the School's total revenues, compared with nearly 25 percent a year earlier. In contrast, for the University as a whole, philanthropic revenue for fiscal 2020 amounted to 46 percent of total operating revenues.

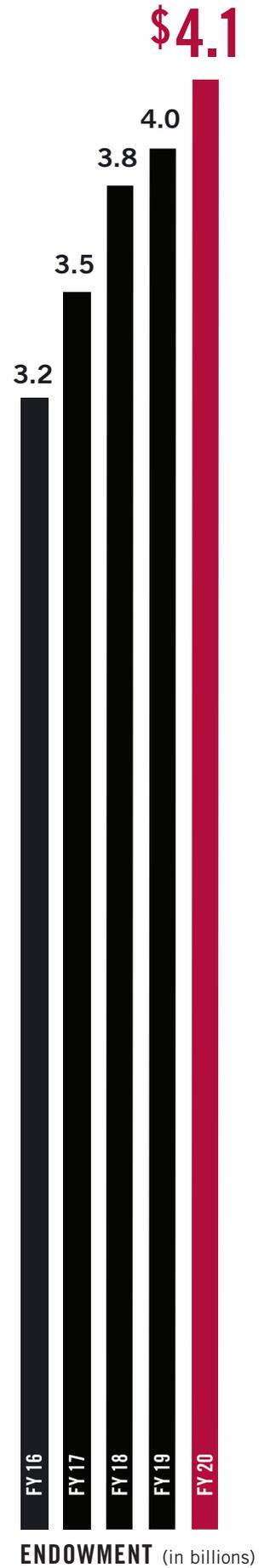
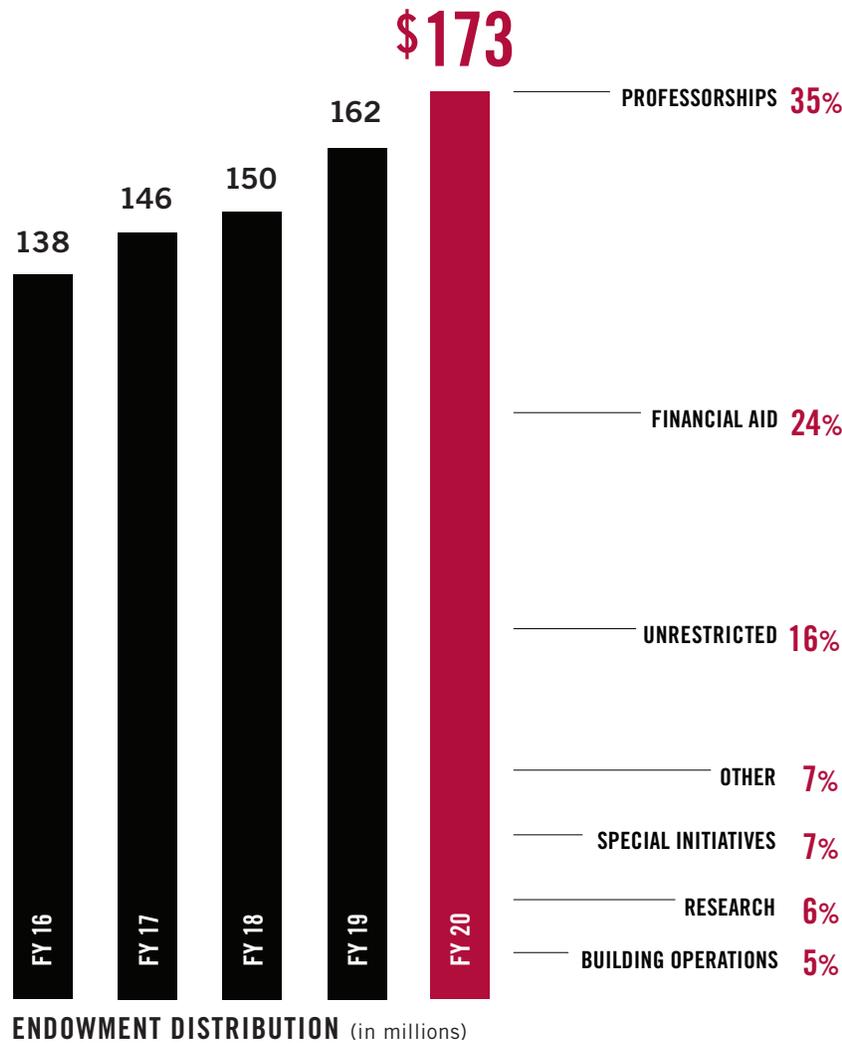
The School's annual endowment distribution for fiscal 2020 increased 7 percent from the prior year to \$173 million,



amounting to 20 percent of total revenue. The HBS endowment currently consists of more than 1,000 discrete funds established over the years by individual donors, corporations, and reunion classes. The School budgets the use of endowment distributions to support activities 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 when 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 2020 met that target at 5.2 percent, compared with 5.1 percent for the prior year.

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 help ensure the University has the financial resources to confidently maintain and expand its leadership in education and research for future generations.

HMC has completed three full fiscal years of a planned five-year restructuring of its organization and the Harvard endowment portfolio. HMC's early organizational efforts involved rebuilding its internal structure and culture, constructing a generalist investment team, establishing new investment processes, and putting in place new performance incentives.

HMC's investment portfolio is evolving in parallel. 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 2020, net of investment expenses and fees, was 7.3 percent, compared with 6.5 percent and 10 percent endowment returns, respectively, for the two prior fiscal years.

The value of the University endowment grew to \$41.9 billion in fiscal 2020—an increase of 2.4 percent from \$40.9 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 2020 year-end market value of the HBS endowment was \$4.1 billion on June 30, 2020, compared with \$4.0 billion a year earlier. This increase reflected the 7.3 percent return on the University endowment, less the School's annual distribution and decapitalizations, offset by the \$56 million in endowment gifts received by HBS during the year. The School did not transfer any internally generated cash to the endowment reserve in fiscal 2020, opting instead to maintain its operating surplus in cash.

HBS received gifts from nearly 8,300 donors in fiscal 2020, 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 2020.

Total cash received from gifts in fiscal 2020, including new endowment gifts and gifts for capital construction projects, payments on prior years' pledges, and restricted and unrestricted current use giving, was \$121 million, compared with \$151 million in the prior year. Cash giving to the endowment decreased to \$56 million, from \$76 million in fiscal 2019. Cash giving for construction projects totaled \$5 million, compared with \$6 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 i-lab ecosystem, expand the reach of HBSO, and increase support for faculty research.

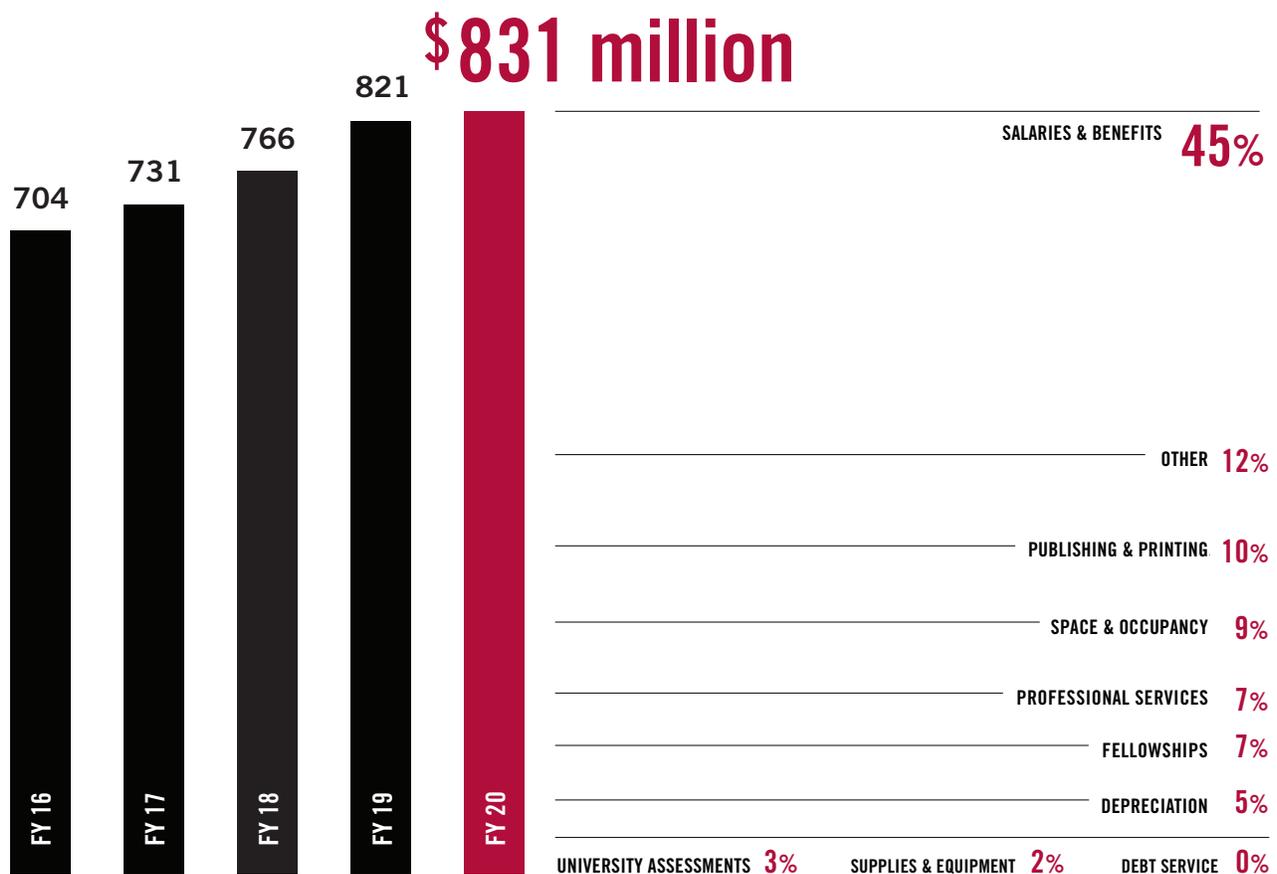
Growing unrestricted current use giving to a sustainable annual level of \$40 million was one of the major goals of The Campaign for Harvard Business School, which concluded in fiscal 2018. In fiscal 2020, revenue from these flexible current use gifts totaled \$37 million. This represented a decrease of 8 percent from \$40 million a year earlier but was ahead of 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.

Restricted current use giving typically varies from year to year in line with the School's changing fundraising priori-

ties and strategic needs. Fiscal 2020 revenue from these restricted gifts decreased 18 percent from a year earlier to \$23 million.

Housing, Rents, Interest Income & Other

Total revenue from the Housing, Rents, and Other category for fiscal 2020 decreased by \$2 million from the prior year to \$21 million. Reflecting gradually increasing interest rates, the School reported interest income of \$5 million, consistent with fiscal 2019. Total housing, rents, interest income, and other revenue amounted to 3 percent of the School's total revenues in fiscal 2020, identical to the prior year.



EXPENSES

Executive Education, HBP, and HBSO operating costs, as well as the School's faculty research costs, cut across multiple expense line items in the Statement of Activity and Cash Flows on page 37.

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 \$131 million in fiscal 2020, comprising nearly 16 percent of the School's operating budget.

Although HBS characterizes costs charged to HBP, HBSO, and Executive Education as operating expenses, in a profit-seeking enterprise they would in large part be considered as 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.

The School's total operating expenses for fiscal 2020 were \$831 million, up by \$10 million, or 1 percent, from \$821 million for fiscal 2019. The increase in operating expenses was attributable in part to the net increase of 11 full-time

equivalent faculty positions in fiscal 2020 and investments in building the staff. Operating expenses also helped to fund fellowships for students enrolled in the joint degree doctoral programs offered in collaboration with Harvard's Graduate School of Arts and Sciences (GSAS).

Salaries & Benefits

Compensation for faculty and administrative staff is the largest expense at HBS. The School's salaries and benefits expense for fiscal 2020 increased 4.5 percent to \$375 million, from \$359 million in fiscal 2019. This represented 45 percent of the School's total operating costs, compared with 44 percent in the prior year.

Building the HBS faculty is a key strategic priority for the School. The total number of faculty, as measured in FTEs, can rise or fall in any given year, reflecting retirements, departures, and fluctuations in recruiting activity. In fiscal 2020, 10 new assistant professors were hired, and 10 faculty members were promoted to associate or full professor. Net of retirements and departures, the size of the HBS faculty increased to 244 FTEs in fiscal 2020, from 233 FTEs a year earlier.

The School's staff grew to a budgeted 1,839 FTEs in fiscal 2020, from 1,761 in the prior year. To pursue growth opportunities and key initiatives, the School added new staff in HBP, HBSO, and the MBA Program, as well as at the Harvard i-lab and to support faculty research.

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 longstanding 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. Extending a long-term record of annual increases in financial aid, total

Fellowships expense for fiscal 2020, including assistance for MBA students, doctoral students, and a limited number of Executive Education participants, increased by \$6 million, or 12 percent, from fiscal 2019 to \$57 million. Fellowships amounted to 7 percent of the School's total operating costs in fiscal 2020, compared with 6 percent a year earlier.

Responding to the challenging job market caused by COVID-19, in fiscal 2020 HBS expanded its Summer Fellows Program from 250 students to 750 students. The program supplements salaries for MBA students working in entrepreneurial organizations, social enterprises, and other non-traditional sectors.

Approximately half of the School's MBA students currently receive fellowships, which cover an average of more than 50 percent of a student's tuition. About 26 percent of tuition—more than \$35 million—was awarded as fellowships in fiscal 2020.

Average fellowship support per student totaled more than \$42,000 in fiscal 2020 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 \$65,000 for the class of 2016 to more than \$80,000 for the class of 2021 as tuition was held flat.

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 million in fiscal 2020.

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, which increased in fiscal 2020. 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.

The School's publishing and printing expenses for fiscal 2020 increased by \$4 million, or 5 percent, from the prior year, to \$81 million. This amounted to 10 percent of the School's total operating costs, compared with 9 percent in fiscal 2019.

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, HBSO, and the School's global offices, as well as residence costs for Executive Education program participants.

The School's space and occupancy expenses for fiscal 2020 declined by \$1 million, or 1.4 percent, from the prior year to \$71 million. Space and occupancy expenses accounted for 9 percent of the School's total operating costs in fiscal 2020, consistent with the prior year.

Professional Services

A large portion of the School's professional services expense category is related to spending that a for-profit business would categorize as cost of goods sold—including growth-focused investments at HBP and HBSO, and compensation for faculty who teach Executive Education programs.

Professional services expenses for fiscal 2020 decreased \$13 million, or 18 percent, from the prior year to \$59 million. As a result, expenses in this category amounted to 7 percent of total operating costs, down from 9 percent in fiscal 2019. A significant part of the decrease reflects the decision to pause Executive Education programs during the pandemic, resulting in a savings in salaries and related professional services expenses.

These savings were partly offset by an increased investment in IT, which continues to be an increasingly fundamental part of the School's operations. In response to COVID-19, the IT organization developed, implemented, and supported numerous technology solutions for both hybrid and remote teaching, learning, and working throughout the School.

In addition, the School's IT and operations departments completed the design, build-out, and launch of two new HBS Live Online Classrooms on campus, and implemented a new application that will allow visually impaired faculty to select and call on students using mobile, wearable, and in-room classroom technologies.

IT spending represented nearly 12 percent of the School's total operating expenses in fiscal 2020. Controlling IT costs is an important financial priority for the School, and HBS has begun to shift toward less expensive software-as-a-service platforms rather than custom-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 2020 decreased by \$1 million, or 8 percent from the prior year to \$12 million, or 1 percent of the School's total operating costs. In the Other Expenses category, fiscal 2020 spending was \$102 million, consistent with the prior year. This amounted to 12 percent of the School's total operating costs in both fiscal years. What's not immediately evident from looking at the Other Expenses line is savings in areas such as travel and catering—activities that decreased in the final months of the fiscal year as a result of COVID-19. Those savings were offset by growth in the first nine months of the year.

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 2020. Klarman Hall—the School's most recent large building construction project—was substantially completed in fiscal 2018.

Total capital expenses for fiscal 2020 increased to \$43 million, from \$38 million in the prior year. The most significant project was the build-out of two HBS Live Online Classrooms on campus, at a cost of \$12 million. As in fiscal 2019, these investments were primarily funded by internally generated cash, and there were no new borrowings.

HBS paid down \$7 million in building debt in fiscal 2020, compared with \$9 million a year earlier. The School's year-end fiscal 2020 building debt-to-asset ratio decreased to 0.8 percent, from 0.9 percent in the prior year. Other University debt increased by \$50 million, related to the Financial Accounting Standards Board's implementation of a new lease accounting standard. The remaining debt mainly consists of repayment obligations to the University for mortgage

loans made by HBS as a faculty recruiting incentive, which remained unchanged from fiscal 2019.

The School's debt service expense consists of interest payments to the University and is covered by using cash from operations. Fiscal 2020 debt service expense was \$3 million, flat with the prior year. As in fiscal 2019, this expense was mainly associated with borrowings to finance prior years' campus expansion. Consistent with the three prior years, the interest portion of the School's debt service amounted to less than 1 percent of total operating costs in fiscal 2020.

University Assessments

The University Assessments expense category encompasses services provided to HBS by Harvard University, including payroll and benefits administration, processing of accounts receivable and payable, and legal services. The amount charged to HBS in any given year is primarily calculated as a percentage of the School's total expenses. As expected, the School's expense in fiscal 2020 for these assessments remained flat from the prior year at \$26 million, amounting to 3 percent of total operating costs.

Depreciation

The School computes depreciation using the straight-line method over the estimated useful lives of the assets. Depreciation expense for fiscal 2020 decreased by \$1 million, or 2.2 percent, from the prior year to \$45 million. The School's depreciation expense for fiscal 2020 amounted to 5 percent of total operating costs, compared with 6 percent a year earlier.

CASH BEFORE CAPITAL ACTIVITIES

The School's cash from operations decreased in fiscal 2020 by \$74 million from the prior year to \$30 million, primarily reflecting the significant impact of COVID-19 on the School's Executive Education group. The pandemic also prompted the cancellation of the FIELD Global Immersion course for first-year students, all of whom received refunds. As part of the transition to concluding the spring semester in a remote learning mode, the School provided funds to cover printing and participation in online classes to all students.

NET CAPITAL EXPENSES

After many years of major capital activity on campus, in fiscal 2019 the School transitioned to a smaller capital budget aimed at sustainability, maintenance, and renewal. This focus

continued in fiscal 2020. Total capital investment increased 13 percent to \$43 million, from \$38 million a year earlier.

The most significant project was the build-out of two HBS Live Online Classrooms, which were completed in March 2020 at a cost of \$12 million. They will be used primarily for Executive Education courses.

The School's net capital expenses for fiscal 2020 decreased to \$30 million from \$35 million a year earlier.

Changes in Debt & Other

The School's debt and other cash activities decreased by \$1 million in fiscal 2020, compared with a decrease of \$104 million in the prior year. After several years of transferring unrestricted cash to the HBS endowment, the School elected to hold its fiscal 2020 surplus in cash reserves. This decision was made to prepare for the potential of an operating deficit, given continued uncertainty about the duration and severity of COVID-19.

Because gifts, internally generated cash, and unrestricted reserves have been available and sufficient to finance capital activities, fiscal 2020 marked the School's twelfth consecutive year with no new borrowings. Debt principal payments decreased by \$2 million from the prior year to \$7 million.

Capitalization of endowment income—or cash used to purchase endowment units—was a \$3 million use of cash in fiscal 2020, up \$1 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 \$2 million source of cash in fiscal 2020, consistent with the prior year.

Ending Balance, Unrestricted Reserves

Approximately 54 percent of the School's revenues in fiscal 2020 came from HBP, Executive Education, and HBSO—areas that are highly sensitive to fluctuations in the economy. Consequently, maintaining an ample balance of unrestricted reserves outside of the endowment is crucial in 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 2020 with an unrestricted current use reserves balance of \$174 million, compared with \$129 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)	2020	2019	2018
MBA Tuition & Fees	\$ 136	\$ 140	\$ 138
Executive Education Tuition	146	222	207
Publishing	262	262	240
Endowment Distribution	173	162	150
Unrestricted, Current Use Gifts	37	40	44
Restricted, Current Use Gifts	23	28	35
HBS Online	58	43	19
Housing, Rents, Interest Income, & Other	26	28	23
Total Revenues	\$ 861	\$ 925	\$ 856
Expenses			
Salaries & Benefits	\$ 375	\$ 359	\$ 340
Publishing & Printing	81	77	74
Space & Occupancy	71	72	71
Supplies & Equipment	12	13	12
Professional Services	59	72	68
Fellowships	57	51	50
University Assessments	26	26	24
Debt Service	3	3	3
Depreciation	45	46	42
Other Expenses	102	102	82
Total Expenses	\$ 831	\$ 821	\$ 766
Cash from Operations	\$ 30	\$ 104	\$ 90
Depreciation	45	46	42
Non-Cash Items	1	—	—
Cash Available for Capital Activities	\$ 76	\$ 150	\$ 132
Capital Expenses	\$ (43)	\$ (38)	\$ (92)
Change in Capital Project Pre-Funding	8	(3)	10
Use of Gifts for Capital Projects	5	6	3
Net Capital Expenses	\$ (30)	\$ (35)	\$ (79)
New Borrowings	\$ 0	\$ 0	\$ 0
Debt Principal Payments	(7)	(9)	(8)
Capitalization of Endowment Income	(3)	(2)	(2)
Decapitalization of Endowments	2	2	3
Other Non-Reserve Activity	7	(95)	(73)
Changes in Debt & Other	\$ (1)	\$ (104)	\$ (80)
Increase (Decrease) in Reserves	\$ 45	\$ 11	\$ (27)
Beginning Reserves Balance	\$ 129	\$ 118	\$ 145
Ending Reserves Balance	\$ 174	\$ 129	\$ 118

CONSOLIDATED BALANCE SHEET

FOR THE FISCAL YEAR ENDED JUNE 30,

Assets (in millions)	2020	2019	2018
Cash	\$ 124	\$ 105	\$ 89
Current Use Reserves	174	129	118
Receivables, Loans, & Other Assets	221	215	214
Invested Funds:			
Endowment	3,799	3,675	3,453
Endowment Interest in Trusts Held by Others	167	169	164
Endowment Pledges	119	138	166
Undistributed General Investment Income	7	3	4
Current Use Investments	63	75	75
Current Use Pledges	122	145	151
Facilities, Net	762	766	774
Total Assets	\$ 5,558	\$ 5,420	\$ 5,208
Liabilities			
Deposits, Advances, & Other	\$ 62	\$ 95	\$ 82
Deferred Revenue	191	183	181
Other Debt Owed to University	81	31	27
Building Debt	40	46	55
Total Liabilities	\$ 374	\$ 355	\$ 345
Net Assets			
Current Use Reserves	\$ 174	\$ 129	\$ 118
Endowment Funds	4,092	3,985	3,787
Current Use Funds	185	220	226
Unexpended Endowment Income	—	1	1
Student Loan Funds	11	10	12
Investment in Facilities	722	720	719
Total Net Assets	\$ 5,184	\$ 5,065	\$ 4,863
Total Liabilities + Net Assets	\$ 5,558	\$ 5,420	\$ 5,208

* 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 2020, the School's results for fiscal years 2018 and 2019 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)	2020	2019	2018	2017	2016
Revenues	\$ 861	\$ 925	\$ 856	\$ 800	\$ 761
Expenses	831	821	766	731	704
Cash from Operations	30	104	90	69	57
Capital Investments	43	38	92	78	113
Building Debt Outstanding	40	46	55	64	71
Unrestricted Reserves	174	129	118	145	103
Endowment	4,092	3,985	3,787	3,472	3,209
Total Assets	\$ 5,558	\$ 5,420	\$ 5,208	\$ 4,821	\$ 4,508

MBA Program

Applications	9,304	9,228	9,886	10,351	9,759
Percent Admitted	13%	12%	11%	11%	11%
Yield	85%	89%	91%	91%	90%
Enrollment	1,877	1,881	1,870	1,879	1,883
Tuition	\$ 73,440	\$ 73,440	\$ 72,000	\$ 63,675	\$ 61,225
Average Fellowship Aid per Student	\$ 42,225	\$ 42,034	\$ 38,959	\$ 37,312	\$ 35,571

Doctoral Programs

Applications	797	748	864	915	843
Percent Admitted	4%	5%	4%	4%	5%
Yield	87%	81%	64%	79%	66%
Enrollment	133	131	134	132	134

Executive Education

Enrollment	10,881	12,605	12,070	11,361	10,855
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HBS Online

Participants	28,839	19,304	12,936	9,142	6,634
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Faculty

Faculty Positions (full-time equivalents)	244	233	225	233	233
Teaching Materials	676	626	642	573	566
Research Articles on HBR.org	231	177	199	182	174
Books	15	14	11	14	23

Staff

Staff Positions (full-time equivalents)	1,839	1,761	1,721	1,680	1,631
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Publishing

Cases Sold	15,209,000	14,539,000	15,062,000	14,859,000	13,468,000
Harvard ManageMentor Active Users	5,037,000	2,837,000	2,430,000	3,200,000	3,478,000
HBR.org Average Monthly Users	9,956,000	6,916,000	7,153,000	7,012,000	5,511,000

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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