HARVARD | BUSINESS | SCHOOL

Dear Alumni,

In November, I wrote to you about the broadening financial crisis and Harvard Business School's response. This week, Harvard alumni received a letter from President Drew Faust discussing the impact of the crisis on activities at the University. I am sure many of you have questions about how the economy continues to affect HBS. Let me share with you our approach to managing the School during this time of significant economic uncertainty and highlight briefly new and ongoing research and course development activities.

In a variety of ways, HBS is well-positioned to navigate difficult times. Over the past few decades we have invested strategically in our educational programs, in the faculty's research, in our campus and services, and in areas such as our information technology infrastructure and the library. Additionally, our business model relies on a variety of revenue sources – not just (or even mainly) the endowment, but also MBA tuition, Executive Education programs, our Publishing division, and alumni giving. While several of these areas may be sensitive to downturns in the economy, we have a wide range of options we can and will pursue as we seek to cut expenses and increase revenues. (The School's Annual Report for 2008 – www.hbs.edu/about/annualreport/2008 – provides an in-depth look at our business model in the Financial Review section if you want to learn more.) Our budget process incorporates not only long-term planning guidelines, but also a quarterly reforecasting process that enables us to adapt flexibly and quickly to changing conditions.

With this as background, let me update you on where we are today. Last spring we began monitoring a number of performance metrics to assess the impact of the downturn on the School. On the positive side, applications to the MBA and Doctoral programs are up, and the applicant pools are exceptionally strong. News from Executive Education is mixed; postponements and cancellations are becoming more common, although overall enrollments have remained stable, and we've engaged a small number of new custom program partners. More sobering is what we're seeing in MBA recruiting: as a wider range of companies encounter financial constraints, fewer are able to hire our students, and job postings for both first and second year students are down significantly – particularly in finance and manufacturing. Additionally, the number of alumni making gifts to the School has declined (no surprise given the personal impact of the downturn in the economy on many, as well as the increasing array of organizations and charities seeking support from private sources). All of these factors taken together, combined with a significant decline in the endowment, and in the context of global economic indicators predicting a prolonged downturn, make clear that we can't expect the coming few years to be business as usual.

The same is true elsewhere in the University, though the pressures are different (and in some cases more significant) in each school depending on its financial model. At HBS, therefore, as we look to next year we have identified roughly 5 percent as the target for our initial expense reductions, and we are identifying an additional 5 percent of reductions that could be made should the need arise.

We'll achieve this initial reduction through a variety of cost-saving mechanisms, including limits on salary increases, a University-wide early retirement incentive, and careful scrutiny of new hires. We are exploring revenue opportunities, too. We plan to increase the size of the MBA program slightly this fall, and we are developing new Executive Education programs we anticipate will do well.

In everything we do, we are working hard to ensure we maintain the excellence of our core programs and the elements that make Harvard Business School distinctive. The School's greatest strength is its people – the faculty, staff, students, and alumni who individually and collectively bring their enthusiasm and talent to accomplish great things. During my decades here, in moments of both celebration and crisis, I have been struck by the spirit people bring to their work and to each other. This is why I am confident Harvard Business School will come through the financial crisis even better prepared to deliver on its mission.

I encourage you to stay in touch with our efforts. I'll update you periodically through emails and letters, and the HBS Web site "On the Global Economic Crisis" (www.hbs.edu/economic-crisis) remains a comprehensive resource on the research and activities of our faculty. This week, for example, we're featuring a new working paper by David Moss, an economic historian who has been advising the Congressional Oversight Panel on TARP, where he argues that effective public risk management is necessary in both crisis and normal times. You'll also find new cases, papers, and op eds on topics ranging from executive compensation to surviving a recession. Many of these materials are being taught this semester in the MBA Program, where faculty are introducing new materials, modules, and courses.

I hope and expect that when people look back at this period of time in the School's history ten, twenty, or fifty years from now, they'll characterize it as a defining moment. And it should be. In ways few could have predicted, this crisis is fundamentally about who we are, what we do, and how we do it. We need to be engaged academically and intellectually, and we need to be engaged personally and individually. For ourselves, for other parts of the University, and for other business schools, this is when we must demonstrate through our actions and our work what I have long believed distinguishes HBS: that we embody, and indeed are and should be, a living model of the principles and practices of leadership and management we teach.

Thank you for everything you do. Your support is very important, and I'm deeply grateful for it.

Jay Light

Dean, Harvard Business School

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