



Practice Case 22 (HBS as a Business)

Question and Background Information:

You are Dean Clark. A wealthy benefactor has come to you with the news that she will give HBS \$100 million. The grant is contingent, however, upon you using the money effectively. You have 1 week to propose to the benefactor where you would use the money before she will finalize the transfer.

How would you, as Dean Clark, propose to use this money?

Suggested Sample Response:

First, as Dean Clark, I need to think through what does spending the money effectively mean? This is a not-for-profit learning institution, but that does not mean that it is not a business. For Dean Clark to be successful, he needs to understand what drives his business and where he can achieve the biggest return for his investment.

There are currently 4 major "business units" that provide a revenue stream for HBS. These include:

- MBA program
- Executive Education program
- Publishing
- Grants and donations

While there are many budding initiatives, including distance learning, these are the four largest sources of revenue.

If you rank the relative profitability of these revenue streams, you would likely find that the least profitable of the four is-the MBA program. Publishing is a very profitable business but it seems to have high reliance on the education business. Executive Education is very profitable, as the fees charged to the executives are quite large when compared to the length of program. Grants and donations are virtually pure profit.

At first glance one might conclude that HBS should focus their resources and efforts on the highest return areas of securing grants, publishing and expanding the Executive Education program. It would follow then, that the MBA program would fall as the lowest priority for resource allocation. That would be an incorrect conjecture, however. Consider what draws people to the executive education program, for example. The brand cache of HBS drives the attendance and enables the price premium. Similarly for publishing, the value of the HBS brand provides the credibility behind the content and drives sales. So what drives the HBS brand? Clearly it is the MBA program.



Dean Clark must focus on maintaining the reputation of HBS as the premier MBA program to attract the best and brightest professors and students. It is then the academic and professional work of these people that contributes to the integrity and value of the brand. Obviously the professors publish, hence enabling that revenue stream. The MBA students graduate and achieve notable success, further driving the brand. Finally, the alumni are responsible, to a large extent, for the grants and donations that HBS receives.

In the end, the MBA program effectively ties in every other revenue stream both directly and via the resulting brand cache. Clearly the \$100 million is best spent on the MBA program.

Summary Comments

This is not a particularly difficult case but it does assess the candidate's ability to think through the school as a business and reason through to the underlying driver of that business. A superb candidate will need little to no prompting to think through this case in its entirety.