MIKE MALYSZKO

The Business of Business School

By Julie Sloane D'99

By now, odds are you've heard about Investing in Excellence: A Campaign for Tuck. This multiyear, $110 million fund-raising effort launched in November as part of Dartmouth's $1.3 billion Campaign for the Dartmouth Experience is the most ambitious capital campaign in Tuck's history. You've gotten the brochure, an email or two, perhaps even a call from Hanover. Fund-raising campaigns do not, after all, thrive on silence and timidity.

In every fund-raising campaign, the burden falls upon the institution to answer a fundamental question: why do we need your money? There are, on the one hand, the very concrete answers—to build a new residential and classroom complex, to support the leadership development program for students, to offer additional much-needed scholarships, just to name a few of the worthy causes in this campaign. If Tuck is to continue to provide arguably the best business-school education available—an especially strong case, if

Tuck alums are doing the arguing—investment in students, faculty, programs, and facilities is essential.

But in Tuck's particular case, there is another answer, one that has less to do with why the school needs money and more to do with why it needs it from alumni. **At its core, the Tuck MBA experience is devoted to the individual and to individuals as a community.** Tuck has a smaller student body than most of its peer schools, and all its professors teach in the MBA program. Among the top business schools in the U.S., Tuck is the only one so focused on a single degree program. That focus creates a unique and attention-rich experience for the student, but it also means that Tuck operates on a different business model, one that ultimately relies more heavily on the generosity of its alumni than do those of many of its peer institutions.

The Business of Education: A Different Philosophy

All private business schools in this country get their funding from four main sources: tuition, endowment income, current-use gifts, and a broad "other" category, which typically encompasses activities like executive education and publishing. Setting aside for a moment endowment and current-use gifts, Tuck's ability to generate revenues from its operations is determined in large part by the school's strategy and its approach to MBA education.

Student tuition is the largest source of income at Tuck, as it is at most business schools. But tuition alone doesn't cover the cost of an MBA education. "Students think, 'I'm paying more than $36,000 a year. Doesn't that pay for everything?'" says Erin Cochrane T'97, Tuck's regional director of development for the northeast. "The truth is that Tuck is a very expensive place to operate." In fact, the annual expenditure per student in FY 2004 was roughly $66,000.

Because Tuck offers only the full-time MBA program, it remains unique among the very top business schools. Others commonly offer a combination of other master's degrees, PhDs, undergraduate degrees, and multiple types of MBAs, such as part-time, executive, and weekend MBAs.

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But Tuck chooses to do less—and to do what it does exceedingly well.

Even though Tuck focuses on a small number of students in one degree program, it still employs faculty who are experts in all the core areas covered in an MBA to ensure an education every bit as deep and nuanced as its competitors'. Committed to small class size and access to faculty, Tuck maintains a student-to-faculty ratio—currently 9.7 to 1— that's one of the best among peer schools.

"Students feel that focus, and they benefit from it while they're here," says Cochrane. **"Every professor at Tuck**

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teaches, and most teach in the core curriculum. And these professors are not only great teachers, they're great scholars." This personalization of experience, this intimacy of a small school is often mentioned as one of the critical assets of a Tuck experience. Tuck pours tremendous academic resources into its student body, which, because of its size, produces less tuition.

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Viewed another way, Tuck is making choices that result in the best education for its MBAs—but this comes at a price. Tuck could, if it chose, leverage its investment in professors, facilities, and administrative resources by increasing the number of full-time MBAs it enrolls or adding other degrees. "A lot of other business schools have survived by adding programs," says Associate Dean of Strategy and Operations James Danko. "If they're in a financially tight situation, often the only way to gain revenue is to add part-time programs, executive MBA programs, or evening MBAs."

Tuck professors could, in theory, teach Dartmouth undergraduates and bring in tuition dollars from the college. Wharton, for example, has 2,400 undergraduates (as well as a core mission to teach them). Classrooms that sit empty on evenings and weekends could be used for part-time MBAs. New York University has 750 full-time MBAs and 1,700 part-timers. A third type of MBA, the executive MBA, is another program popular at top business schools, enabling working executives to earn an MBA while still on the job. Rather than the annual tuition for a full-time MBA program, which can run into the mid-$30,000s, tuition for 18- to 24-month executive MBAs typically carries a price tag of between $80,000 and $120,000. (Employers tend to financially sponsor the majority of these students.) The Fuqua School of Business at Duke University, for example, has nearly as many executive MBAs as full-time MBAs. Needless to say, Tuck has neither part-time MBA students nor executive MBA programs. Tuck could also add PhDs, not as a moneymaker—most PhD candidates are on heavy scholarship—but for the research assistance they provide to professors. With no PhD students, Tuck professors rely on visiting research associates—mainly postdoctoral students—and full-time professionals, who provide invaluable research support but also must be paid salaries for their work.

While conceding that Tuck could, theoretically, pursue these other degree programs, Dean Paul Danos says, "We want to focus on the full-time MBA and do the best possible job with it. That is a hallmark of Tuck's operating style—one factor that makes us unique—and it's been that way since Tuck was founded." Because Tuck can't charge more than the market rate for tuition—no one wants to lose the best students because of sticker shock—the choice to limit enrollment restricts its ability to gain economies of scale.

Over the past 10 years, to remain competitive with other schools and enhance its MBA program, Tuck has increased the size of its faculty and added a fourth section (60 students) to each entering class. As a result, the impact of Tuck faculty on their scholarly fields and the opportunities available to Tuck students, both inside and outside the classroom, have increased significantly without sacrifice in the personal scale of the school. At this point, however, further increases in enrollment would jeopardize the very aspects of the Tuck MBA experience that make it so valuable.

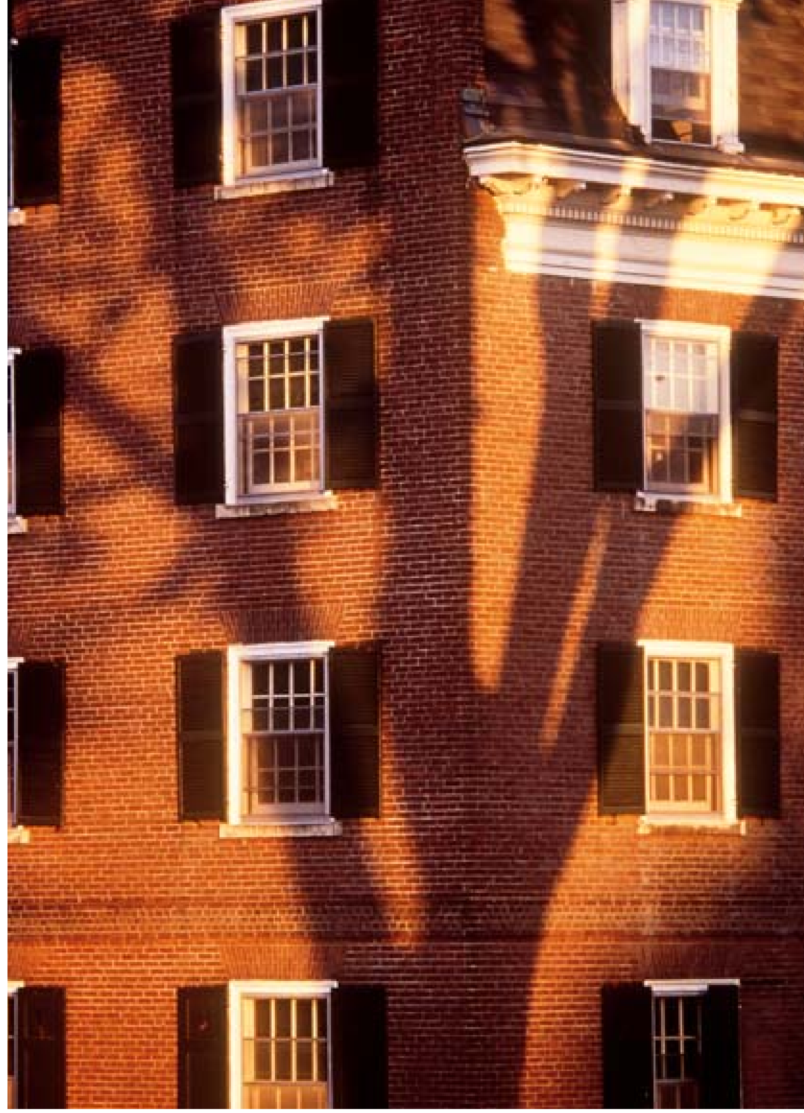
A major difference between Tuck's financial model and those of other schools is the size of other revenue streams for the school, primarily executive

education and publishing. Tuck's executive education activities—such as the Tuck Executive Program, the Tuck Business Bridge Program®, and the Minority Business Executive Program (see article on page 12), not to mention its growing business of custom programs for corporations like Hasbro and John Deere—have been a successful and complementary part of Tuck for 30 years. Last year, these programs brought in $5.2 million and drew 1,100 executives, and they continually keep the faculty engaged with executives from the companies and industries about which they teach.

Executive education can be quite expensive for its participants, with five-day programs at top business schools running about $7,000. Often faculty are brought in from the outside as contract employees solely for these programs, which in some cases makes them less expensive to the school than a salaried professor requiring research support.

Executive education has become a big business. The Darden School at the University of Virginia brought in $30 million from its executive programs last year, and Harvard's executive education revenues were $67.6 million—a number noticeably larger than Tuck's entire yearly budget—enough to warrant building a housing and classroom complex devoted to the 7,000 annual visiting executives. Wharton's executive education programs have 8,000 participants annually, with 2002–03 revenues (the most recent figures released) amounting to $38 million. The economic slowdown of the past several years has reduced executive education revenues industry-wide, but they still represent a large percentage of revenue at each school. Harvard, one of the few schools to release a breakdown of its revenues, says that these programs account for 23 percent.

Tuck's executive education programs have grown substantially of late and now represent approximately 13 percent of the school's revenues. **Tuck's decision to grow executive education but limit it to a smaller number of high-quality programs is intentional.** According to Danos, the goal is to offer a range of executive education programs—but not so many that they drain resources



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from the MBA. "Tuck has a diverse offering of executive education. But we require that faculty teach in the MBA program, and we also want them to be very productive researchers," explains Danos. "That doesn't leave a lot of time for teaching executive education, but it does leave some. Tuck is not going to be the biggest player in that game. We don't want to be. We just want to offer the highest quality."

Similarly, the publishing of business cases, journals, and books can be a major business. Harvard Business School Publishing is a $91.1 million enterprise that brings in 31 percent of the school's revenues—more than executive education or tuition. In August, Penn announced the formation of Wharton School Publishing, a joint venture with Pearson Education, and had four titles in its fall catalogue. Although its faculty do author business cases, scholarly and management articles, and books, Tuck has chosen not to get into the publishing business, primarily

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because it would require diverting faculty time and efforts from research and MBA teaching.

Although other schools offer top-quality MBA experiences, Tuck has simply adopted a different philosophy—one that emphasizes a close-knit community of world-class scholars focused on the MBA. Tuck prides itself on its personal connections, its network, and the access its students have to faculty, alumni, visitors, and staff. Much of this access stems from the fact that the attention of the faculty and administration is not diverted into multiple programs. Likewise, every MBA student on the Hanover campus shares the same core experience. "Everyone here has a common language," says Danos. "We're all talking about the same courses, the same curriculum. The scale at Tuck is personal, matching great students with great professors in small groups. **It's a one-on-one education. You can't scale up that kind of relationship. But it is an expensive way to do business."**

It's also one of Tuck's unique assets. The business of education is particularly rewarding at Tuck when it comes to developing bonds and building knowledge, but that deliberately sacrifices having the biggest possible bottom line.

Making the Model Work

This portrait of Tuck's finances may surprise you. After all, Tuck is not cutting back on the experience it offers to MBAs. Quite the opposite is true when you consider the unveiling of Whittemore Hall in 2000, the notable recent additions to the faculty, the increase in scholarship funds over the past four years from $1.3 million to $2.1 million, and the myriad projects that will be funded by the current campaign. **Tuck's finances balance for one simple reason: alumni support.** In fact, after tuition, the largest piece of Tuck's annual budget—roughly 40 percent—comes from alumni contributions, either through current-use gifts (primarily through Tuck Annual Giving [TAG]) or income from the endowment. Both pieces are critical and support Tuck in different ways.

One would be forgiven for having the misconception that because Tuck and Dartmouth have sizable endowments—on June 30, 2004, they were $168.2 million and $2.5 billion, respectively—they can simply reach into their bank accounts when they want to build a building, add faculty, or enhance the MBA program through new initiatives. In truth, that is not the case. Although the financial health of Dartmouth College certainly is a boon to Tuck in the form of ever-improving central facilities and services, the finances of Dartmouth and Tuck are entirely separate. Not only does Tuck not receive funds from Dartmouth, but it actually pays for its use of the college's facilities management, human resources, and central financial services.

At Tuck, as at all business schools, only a small percentage of the endowment can be withdrawn and spent in a given year. Dartmouth's board of trustees determines the annual distribution percentage each year, but it typically follows the industry norm of around 4 to 5 percent. In the 2003–04 academic year, about 21 percent of Tuck's operating budget (roughly $8.1 million) was made up by

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endowment distributions. A fiscally conservative tactic to be sure, but by sacrificing the ability to spend endowment money in the here and now, Tuck gains a long-term income stream and the stability it brings. Because endowments are market-dependent, just like any stock portfolio, most universities have been struggling since 2001 with the impact of declines in the market value (and therefore the income generated) of their endowments. Only recently have the market values of endowments begun to climb.

The goal of the current fund-raising campaign is to add $40 million to $50 million to the endowment. The $32 million earmarked for faculty represents the largest chunk, of which roughly $1.5 million can be withdrawn annually—more if endowment investments bring a high return. The $12 million earmarked for scholarships will head into the endowment funds, as will some of the $8 million to be used for new MBA program initiatives.

The other key component of Tuck's annual operating budget comes from the generosity of alumni in giving current-use gifts, primarily but not exclusively through TAG. Money given to the school through TAG—which is considered part of the campaign—represents close to 10 percent of the annual budget. It has long been a source of great pride that the percentage of Tuck's 7,900 living alumni who give to the school annually far outstrips giving rates at any other business school.

Participation has grown considerably over time. In 1973–74, the percentage of alumni who gave to Tuck reached 30 percent. Three years later it reached 40 percent. By 1981–82, it was 50 percent. For the past two decades, the figure hasn't fallen below 60 percent. The $3.75 million given by a record 64.8 percent of Tuck alums last year represented an increase in dollars of 17 percent over the previous year. According to Director of Tuck Annual Giving and Alumni Services Dave Celone, that kind of growth in a mature giving program is staggering. **At other business schools, alumni giving participation rates rarely exceed even half of Tuck's figures:** Fuqua and Columbia Business School are both at 25 percent, Stanford

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Graduate School of Business is at 37 percent, and Harvard Business School is at 30 percent.

Granted the overall totals and average gift amounts may be higher at some other schools, but the fact that the majority of Tuck alumni donate annually speaks to the nature of the Tuck experience. “Incoming students can look at this big network of people who are still involved with the school,” says Andy Steele T’79, executive director of development and alumni services. “Our participation rate helps to tell our story.” In fact, at most business schools, recent alumni have the lowest giving rates, with older alums participating far more. At Tuck, the pattern is almost the exact inverse. Not that older alums don’t have high giving rates, but it’s not unusual for a class of recent graduates to have close to 90 percent giving rates, with higher than 70 percent as the norm.

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Without Tuck’s being able to dip into the endowment when it seeks to build new facilities, all new buildings are funded almost entirely by alumni and corporations through capital gifts. For this reason, the biggest chunk of the campaign goal—$37 million—is earmarked for building a new dual-purpose residence hall and classroom building behind the Murdough Center and Whittemore Hall on the current site of the not-long-for-this-world Hinman undergraduate dorm.

Ironically, Tuck’s size and focus on the full-time MBA force it into a business model that depends heavily upon alumni support, but that same intimacy of experience is precisely the reason alumni are so enthusiastic about offering support. Alumni give because they had a powerful learning experience in a tight-knit community where they received personal attention from faculty and the administration. What they perhaps didn’t realize at the time is how much that experience they enjoyed depended upon the graduates before them.

Tuck has smaller classes, a smaller faculty, and a smaller endowment than some of the giants it competes with, and yet it continues to rank among the top business schools anywhere. Small is succeeding. “We’re fighting outside our weight class in the fiscal arena, and we’re winning,” says Celone. **“Our students get a fabulous education, and we’re placing them at similar levels in similar professions at similar companies as the larger, wealthier schools.”**

Meanwhile, the need continues to keep pace with the best, to attract the best students and professors, to have the best facilities, to offer every possible experience to give its graduates an edge in the workplace. In much the same way that a close-knit environment is the cornerstone to a Tuck education, that spirit of community plays a big part in financing the improvements to keep Tuck at the top.

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For up-to-date information on the Tuck campaign, visit www.tuckcampaign.org.