Executive Summary:

Fuqua School of Business


A) INTRODUCTION AND GOALS

Over the past thirty years, the Fuqua School of Business has moved from being a start-up school to a position as one of the leading business schools in the world. Our incoming MBA students compare with the students attending the very best business schools both in quality and diversity. Further, the students at Fuqua are extremely committed to the school and work hard at enhancing their educational experience, a commitment to the school that they continue as alumni. Our faculty members frequently publish in the top journals, they win national and international awards for their research, and other scholars are attracted to work with our faculty. Our staff members are increasingly professional and have long been extremely committed to the school. We have an international reputation as the leader in the "place and space" approach to management education that combines intense on-site educational experiences with computer-mediated distance learning methods. Overall, Fuqua has made great strides in its efforts to be a global leader in both education and research relevant to management.

The goal for the next five years is to build on our momentum and establish a sustainable position as one of the top five or six schools of business worldwide. A "top-five" position will reflect the views of multiple audiences including the faculty at other institutions as well as the rankings by various publications. More specifically, we define "top-five" in terms of research impact, student quality, educational program leadership, strength of alumni network, and corporate support, as well as in terms of "rankings".

Although we have achieved great success as a business school, maintaining a top-five position among the leading business schools will not be easy. Our competition is distinguished, and compared to our competition, we face major challenges in terms of faculty recruitment and retention (our faculty is relatively small) and financial resources (a growing but still relatively small endowment). There is even a danger that, if we do not continue the current momentum, we could slip from our current position. However, as outlined below, we believe it is possible to respond to the challenges we face, and achieve the goal of a sustainable position as one of the top five or six schools of business worldwide. Further, we believe that success for Fuqua will be of substantial benefit to the rest of Duke University as it strives to be one of the top universities in the world.

B) ASSESSMENT OF THE EXTERNAL ENVIRONMENT AND FUQUA’S STRENGTHS AND CHALLENGES
There are obviously many trends and challenges that will face Fuqua, and other business schools, over the next several years, but four trends and challenges merit special mention. First, the emergence of information technology and the information network as critical elements of commerce today has created a new economy. The changes in information technology that have led to the new economy have changed both what we teach and how we teach. What we teach. Students in traditional MBA degree programs seek an understanding of the dynamics of this new economy and increasingly desire to participate in it. This affects the job aspirations of students, the design of a curriculum relevant to their job aspirations, and trends in graduation and placement. How we teach. Changes in information technology have worked to change the medium of teaching business as well. As one of the original innovators in Internet teaching with our Global Executive MBA program (now known as The Duke MBA – Global Executive), Fuqua foresaw a growing impact of the Internet on business education. Other schools have picked up the lesson. Fuqua needs to emphasize our leadership in distance learning technologies along with intense face-to-face instruction in all of our programs. The use of innovative computer and Internet-mediated educational delivery should be a signature feature of Fuqua.

Second, as part of the new economy, there is a greater than ever emphasis on entrepreneurship. Another trend is that consequently, Duke needs to actively redesign its curriculum to attract top students day MBA who are interested in entrepreneurship. There are opportunities in this area to coordinate educational efforts between Fuqua and the rest of Duke University in the area of entrepreneurship.

A second-order effect of the entrepreneurship trend is that it is a on the other hand, tilting the career interests of the day MBA daytime MBA student at the top schools. Consequently, companies are forced to look to the ranks of their own employees for management talent. This has sharply increased demand for executive MBA programs and non-degree executive education. This trend may provide an opportunity for Duke Fuqua to enhance its executive MBA programs. If large companies find they are no longer able to hire MBAs from the top schools, they may be more interested in providing MBA training for their current employees. This is likely to increase the demand for executive MBA programs.

Third, the emergence of the new economy and the central role the United States has played in that phenomena has increased the attractiveness of the U.S.-based MBA throughout the world. Most business schools in the 1990s developed an improved understanding and focus on international business issues, Fuqua among these. More than 30 percent of our daytime MBA students, for instance, are international students. A related, and striking, trend today is the apparent emergence of the global business school. For example, Chicago built a program in Barcelona and now plans to open a campus in Singapore, as does INSEAD.

Fourth, at the heart of any educational enterprise is the faculty. Unfortunately, Fuqua has a relatively small faculty compared to the leading business schools. Further, because other top business schools see an increasing demand for business education, many of our competitors have plans to grow their faculties. Finally, the number of new faculty being "produced" by Ph.D. programs is not growing. Thus, it is clear that the next several years will see a growing
competition for faculty that are able to do the level of research and teaching required by the top business schools.

We must work to make Fuqua a more attractive place for faculty. We need to develop initiatives to retain and recruit the best faculty. One major way to make Fuqua as attractive a place as possible for faculty is to make sure that Fuqua faculty members have every opportunity to excel in their research and teaching.

To face the external environment challenges, the Fuqua School of Business has a number of strengths. Perhaps most importantly, there is a sense of momentum at the Fuqua School of Business. The sense that Fuqua is highly innovative helps us attract faculty, staff, and students. We also have an excellent faculty and staff who are dedicated to building the school and who are not afraid of taking risks. Further, we have a level of collaboration among faculty and across disciplines pertaining to program initiatives that has not been common in other top schools. A challenge moving forward will be to maintain our collaborative and innovative organizational culture as we grow. In addition, we have several areas of research strength, e.g., Marketing (top-five), finance, and management. Across the school, we may have the best collection of scholars in the broad field of decision research to be found anywhere.

Additional strengths of the Fuqua School of Business include good and improving physical facilities. We have world-class facilities. Building the new Academic Center, however, has put additional strain on our limited capital resources. In addition, we face the challenge of continued improvements to our physical facilities in order to enhance our competitiveness for top-five level students. Current plans call for further expansion and renovation at a capital cost in excess of $25 million to bring our physical facilities up to competitive standards. Obviously, spending on facilities will place even more strain on our limited financial resources. A factor related to the physical facilities is the information technology infrastructure at Fuqua. We are currently well positioned as one of the leaders in the use of information technologies to support the teaching and research activities of the school. The problem is that continued leadership in information technology requires a continued high level of investment that is hard to fund out of tuition income. In addition, we have excellent student quality, diversity, and enthusiasm. The commitment and role our students play in the life of the school is a key success factor for Fuqua. Finally, we have a clear global perspective. We have created the first international campus in the 75-year history of Duke University with the launch of Fuqua Europe in Frankfurt, Germany. This fixed campus builds upon the international reach of our programs such as The Duke MBA – Global Executive, The Duke MBA – Cross Continent, and Executive Education programs. In addition, Fuqua boasts a globally diverse student body and faculty.

While Fuqua has strengths, there are several problems facing Fuqua that we need to address. Two of the most important challenges are endowment and faculty size. Our endowment is much too small compared to the other leading business schools. Consequently, Fuqua depends much more on direct tuition dollars and executive education fees to fund our activities. Second, as mentioned earlier, our faculty is too small with too few senior leaders. We started with a small faculty and have been growing it out of tuition dollars. Therefore, to grow the faculty in order to compete with the top schools on
research, we have had to start new innovative programs. These innovative programs have contributed to the sense of momentum that is one of our major strengths. However, the need to start new programs has, in the short-run, complicated the demands of a small faculty by further burdening the already small senior faculty resources. These innovative programs have also increased the teaching demands on the faculty because they are breaking new ground in their format and their use of technology.

Two other problems are an overworked staff and location. The same issues that are true for the faculty are true for our staff. Our staff has been highly successful at pioneering new programs, but they are experiencing the same tensions that are experienced by the faculty. Finally, while there are many positive aspects of being located in Durham, N.C., our location does present some challenges. In part, our location has helped set the school’s strategic direction. We created new programs that would put us out in the world (e.g., Global Executive and Cross Continent) and delivered Executive Education programs at sites around the world (e.g., Siemens, Deutsche Bank and Glaxo Wellcome). These initiatives guarantee that we will not sit back and wait for the world to come to Durham.

C) SPECIFIC PLANS

Having provided an external assessment and an internal assessment of the environment, we next turn to specific plans for The Fuqua School of Business during the next five years.

1) Faculty growth and development. To be able to have research impact consistent with a top business school status and to provide the highest quality of education on a global basis, Fuqua’s faculty size needs to be increased substantially. Our current faculty size puts our position as a top 10 (now top 5) business school at risk. Therefore, the goal is to grow the faculty from its current size (69 tenure-track faculty) to approximately 90 to 95 tenure-track faculty members and 10 to 15 regular-rank (professor of the practice) faculty members. Longer term, the goal is a faculty in excess of 100 tenure-track faculty members. A total faculty of 115 or so will still be small compared to many of our competitor schools. A faculty size of 115 or so will be put Fuqua closer to the faculty sizes of our leading competitors.

An analysis of faculty recruiting for the period 2000-2001 to 2005-2006 indicates that we will need to average about 14 to 15 new hires per year, before adjusting for attrition, to be able to reach a faculty size of 96 tenure-track faculty members by the 2005-2006 year. Clearly, achieving an average of 14 to 15 new hires per year (a net gain of +4 or 5) will be a difficult task. Consequently, we need to consider a variety of approaches to our hiring process in addition to our more traditional approaches. Importantly, we need to also work on the development and retention of our best faculty. Obviously, any improvement in our current retention rate that can be accomplished without lowering quality standards will lessen the number of new faculty that need to be hired.

A larger faculty alone will not be sufficient. Along with the growth in faculty we need to improve upon an already high-quality level. We need to add substantially to the number of distinguished professors at Fuqua. We must also
focus our faculty development and try to build synergies among Fuqua faculty, and between Fuqua faculty and faculty in other departments and schools at Duke University.

2) Research Goals. The Fuqua School of Business views research as a core activity of the school. Along with the educational component of our mission, we strive for a global leadership position in research relevant to management. A major goal over the next five years is to increase our research productivity and impact.

Although business research is defined in different ways in various business schools, research at The Fuqua School of Business tends to be highly discipline-based. That is, we approach important problems in applied areas such as marketing from the perspectives of disciplines such as economics, psychology, sociology, and statistics. Our approach to research fits within the "Use-inspired Basic Research" paradigm, emphasized in the Duke University strategic plan. Over the next five or six years, the focus of research at The Fuqua School of Business will continue to build upon our strong disciplinary base. Not only do we believe in the value of this approach to research, it is also the approach to management research that is most likely to build synergies among Fuqua faculty, and between Fuqua faculty in other departments and schools at Duke University.

In addition to growing the faculty, we must also look to other ways to increase the research impact of our faculty. Collaborative efforts like the new Center for the Study of Global Capital Markets, which is joint between Law and Business, is one very useful approach. We will also need to continue to invest in research infrastructure projects, e.g., computer networks and a laboratory for behavioral research. Finally, we need to increase the amount of research money brought into the school in the form of grants and contracts. Focused research centers the Center for Health Sector Management provide an opportunity for large research grants and contracts.

Overall, it is clear that we need to combine an increase in the research productivity and impact of The Fuqua School of Business along with increases in our faculty numbers, educational programs, and increases in the quality of those programs. Goals for our educational programs are discussed next.

3) Educational Programs Development. Fuqua has a daytime MBA program of five sections, three executive MBA programs (Global Executive, Cross-Continent, MBA and Weekend MBAExecutive) of two sections each, and a Ph.D. program of 47 students. In 1998-99, our Executive Education program taught more than 2000 managers worldwide and generated about $14 million in revenue. The overall plan is to increase the sizes of some programs by the year 2005. However, the growth in programs will not be uniform. In a couple of areas, the growth will be zero or very modest.

Given the need to continue to improve and sustain the quality of student in our flagship day MBA program and the cost of the day MBA program, we plan to maintain the size of the daytime MBA program at five sections of between 60 to 65 students per section. We also will continue to invest resources towards improving the quality of the educational experience of the students in
the daytime program. Included in those efforts will be improvement in teaching and migrating more elements of our signature computer-mediated model of MBA education into the daytime program.

Over the last few years our Ph.D. program has been very successful. Therefore, an area of modest growth will be in our Ph.D. program. Our Ph.D. program will grow proportionally to the growth in the faculty to a level of around 60 to 65 students.

We expect that the major growth in our programs will be in the executive Executive MBA programs. We believe investment in executive degree programs is responsive to the needs of our long-standing, large capitalization, corporate partners. Also, information technology makes it possible for us to expand our Executive MBA programs beyond our geography, and makes possible the development of new approaches to executive MBA education as illustrated by our Global Executive MBA (GEMBA) program. In addition, one of the most important trends in business education is the globalization of the educational marketplace. Therefore, the goal is to have at least four sections (55 students each) of the Cross--Continent MBA program in the United States and two sections in Europe, and two sections (50 students each) of Global Executive MBA students by 2005. The more regionally oriented Weekend Executive MBA program will be maintained at two sections (55 students each), although we may redesign the Weekend program to be closer to the "place and space" model of executive MBA education that is a signature feature of our other two programs.

Finally, we will recognize the changes in the executive education marketplace with a new "for profit" independent business unit that will offer multi-leveled tailored (custom) executive education solutions to companies. The new business unit will also offer consulting and technical services to the growing corporate university marketplace. The name for the new business is Duke Corporate Educational Inc. (DCE). Our plan is to maintain and grow modestly our open-enrollment programs as a continued part of Fuqua. We need to develop the kinds of open-enrollment programs that build on our reputation in areas like marketing and finance, and that are the kinds of programs most suited to a research-based faculty. A focus will be on building open-enrollment programs in Europe to help support the Fuqua School of Business Europe.

4) Financial. Tuition, endowment income, philanthropic support and sponsored research are the principal revenue sources for the University at large. As noted above, compared to our competitor schools we have a very small endowment. Our annual philanthropic support is growing, but not yet where it needs to be to support a top-five business school. Clearly, we also need to increase the level of sponsored support for our research activities. A goal for the next five years is to establish a least two more major research centers that will combine public (grants) and private funding of research at Fuqua. We also need to continue to build our annual giving and other forms of philanthropy. However, the key point is that we cannot reach the needed financial basis for being a top-five school quickly enough through philanthropy. Consequently, the plan is for the principal revenue source for Fuqua for the next five years to remain tuition and fee income. Thus, the expansion of programs outlined above.

5) Facilities and Other Capital Goals. The recently completed Magat Center and the ongoing Keller Center renovation project are the first two phases of a
four-phase facilities plan for the Duke MBA complex. Total capital investment for this new construction and the renovations now underway will be approximately $20 million. Even after the completion of the current renovations, space will remain a critical resource for Fuqua. Construction of a Student Center is the third phase of the facilities plan. The building will be situated between and connect the east and west wings of the Keller Center. The Student Center plan includes construction of a mini-tower to address many of our administrative needs and 14 additional faculty offices. The Student Center proper will greatly improve student life at Fuqua. The current plan is to begin construction in December 2000 and complete the facility by July 2002, estimated capital costs for this project are $25 million.

A classroom and interdisciplinary studies building, perpendicular to the east wing tower, is planned as the fourth phase of the MBA complex facilities plan. Conversations with the Law School and Duke’s central administration about sharing such a space are underway.

Another construction project that is expected to occur is the renovation of the two-classroom/guestroom pods of the R. David Thomas Executive Conference Center. The number of guestrooms, classrooms, public spaces and food/beverage outlets cannot support the expected growth of our EMBA programs without modification. The thought is to "fill in" the center of each guestroom pod with additional meeting space and bring the total number of guestrooms to 125. The renovation would be scheduled to begin as the new Student Center opens (August 2002).

In addition to physical plant growth, Fuqua annually spends roughly $1.2 million on capital improvements in the information technology area and $1.8 million on building maintenance and operation (Fuqua and the Thomas Center).

D) FINANCIAL STRATEGY

Fuqua is currently constrained by limited financial resources. We have been successful thus far in moving quickly to reach our $60 million capital campaign goal (we have achieved $54 million to date) but, analytically, our ability to sustain our programs and make necessary investments in faculty growth and infrastructure requirements by traditional fund-raising means is heavily circumscribed. Consequently, the key to the development of a plan that will lift this school to top tier status, and sustain us there, is to devise a financial strategy that can support necessary program quality and fund needed investments.

The five-year financial plan for Fuqua contemplates revenue growth from $49.7 million in 2000-01 to $82 million in the fifth year of the planning cycle, and operating surpluses that rise from year $.8 million in 2000-01 to $6.6 million by the fifth year.

The key elements in this plan are:

1. The Duke MBA (daytime) program is fixed at its present size (660 students) and tuition rises with inflation (3.5%)
2. The Duke MBA – Global Executive program remains at two sections,
enrollment increases to 100, and tuition rises with inflation.

3. The Duke MBA – Weekend Executive remains at two sections, enrollment increases slightly to 110, and tuition rises with inflation.

4. The U.S.-based Cross Continent program is launched in August 2000, as one section of 60, and enrollment increases by one additional section of 55 each year until it enrolls four sections in 2003-04, remaining at that level thereafter.

5. The Frankfurt-based Cross Continent MBA program enters one section of 37 in August 2000. Enrollment increases to two sections of 55 students the third year and is expected to remain at that level. Though operations of this program are not reflected in this financial plan, substantial reimbursements for shared staff and faculty teaching are included as revenue from Fuqua School of Business Europe.

6. The customized Executive Education business conducted by Fuqua is assigned to a for-profit entity, Duke Corporate Education, Inc., with effect from July 1, 2000. The plan assumes $6 million in income from this source for the first three years of the planning cycle, increasing to $12 million in the fifth year. Open-enrollment Executive Education will remain within Fuqua and will grow modestly from $2.7 million in 2000-01 to approximately $4.9 million in the fifth year.

7. The faculty is assumed to grow from 69 currently to 92 by the end of 2004-05, and faculty salary costs are projected to escalate at 10% per year, reflecting competitive pressures on salary levels.

8. Funded depreciation for future capital needs is assumed to increase reflecting the first full year of operation of the Magat Academic Center, and will grow to $3.9 million in year five, reflecting the additional construction of the Student Center scheduled for completion in 2002.

9. Faculty summer support expenses, which are currently funded from the capital reserves of the school, are incorporated into the operating budget beginning in 2003-04. This corrects a poor accounting practice and adds operating expense to the budget while reducing the annual draw on the capital reserve by a corresponding amount.

To summarize, Fuqua has operating strategies in place to enable us to fund ambitious program and faculty growth over the next five years. The primary driver of this growth is the planned rollout of the The Duke MBA – Cross Continent program over the next four years. The market response to the initial offering has been strong, and we have a high degree of confidence that we can ramp up enrollments to the planned level without undue risk. The spinout of customized Executive Education to Duke Corporate Education Inc. will actually reduce our risk for this portfolio asset because it can be scaled under the new model to limit the downside risk we currently have from over dependence on a limited number of customers. The key issues in the plan are our ability to deliver and market our executive MBA programs effectively and to grow our faculty at the aggressive rate assumed, recognizing the intensity of the competition.

The plan format does not explicitly address the question of capital adequacy. We currently have $13 million in debt associated with the construction of the Magat Academic Center, and we have drawn down capital reserves to the minimum prudent level to finance renovations and re-constructions of the Keller Center and to fund ongoing capital requirements in Information Technology. Looking forward to the five-year plan cycle, we plan to construct the new Student Center, and we will require in the order of another $5 million in
additional technology investments to sustain Fuqua’s lead in this area. The
Student Center is expected to be financed by fund raising and the utilization of
an existing quasi-endowment for facilities.

The cash flow from operating surpluses and depreciation will rebuild Fuqua’s
capital reserves at a rate of approximately of $3.1 million in the first year, rising
to more than $13 million per year in the fifth year. Therefore, without assuming
any additional fund raising success, Fuqua should be in a position of capital self-
sufficiency by the year 2004-05, after an accelerated retirement of the
outstanding debt of $13 million.

Fuqua’s capital base can potentially be substantially further strengthened by our
equity position in Pensare (10%) and Duke Corporate Education Inc. (51%).
However, there is considerable risk and uncertainty associated with both of
these positions and, consequently, for planning purposes we have assumed no
benefits from either in the five-year time horizon.

E) CONCLUSION

To conclude, the Fuqua School of Business has come a long way in a short
period of time. We are now viewed as a top business school. We need to build
on our momentum, and work toward a sustainable position as one of the top tier
business schools in the world. The faculty, program, and financial plans outlined
above have the potential to achieve that goal.