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Local Responses
to Global Crisis

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Local Responses to Global Crisis



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Global Crisis and Business School Responses

Welcome Word



**Danica Purg, CEEMAN President,
Slovenia**

Welcome to our Deans and Directors Meeting and Annual Conference. I hope that we are going to hear some interesting insights about the ongoing crisis. We all have to deal with the challenges that it has created for us.

Recently, I attended a human resource management conference where I learned a lot about what is being done in Scandinavian countries and how they develop talents. I expect that at this forum we will exchange innovative ideas about how we can do our jobs better.

I am very happy to introduce to you Professor Jim Ellert. He is one of the world's leading authorities in finance. Jim is a professor at IMD Lausanne and former dean of the faculty. He has also been a visiting professor at IEDC-Bled School of Management for many years. Jim will lead today's event for us.

We are going to have very interesting round tables and discuss stimulating topics. Among other things, we will have a presentation of some research that many of you have participated in.

After that we have the opening of the CEEMAN Annual Conference with the chief economic advisor to the prime minister of Latvia and the mayor of Riga. That will be followed by an official reception prepared for us by Boriss Kurovs and Irina Sennikova, the hosts of this event. I am sure we are going to have a great time.

I wish you a very good day and I pass the floor to Professor Ellert.

Introduction by the Chairman

Jim Ellert, Former Dean of Faculty, IMD Lausanne, Switzerland

Good morning, distinguished colleagues.
It is a pleasure to be here with you.

As we have already heard from Danica Purg, our main goal today is to share our experiences, the challenges that we have encountered during the global crisis, and the lessons that we have learned.

In that spirit, I will start with sharing the experiences that we have had at IMD, Lausanne, with this crisis and a previous one. Then I will turn the table over to Milenko Gudić and Al Rosenbloom who recently completed a large study of business school responses to the current crisis.

They are going to share their results in three stages. First they will give us a general overview of the findings. Then, in subsequent sessions during the day, they will be looking at how business schools are dealing with customer needs and how business schools are responding to the internal challenges associated with the current crisis.

Let us put this current crisis in perspective. It is certainly the worst crisis that we have had since 1991-1992. That was the last major economic downturn, which impacted severely on our business. In the meantime, we had SARS, which created some disturbance, and we had September 11 in the US. But the current crisis is clearly the largest challenge that we have faced in many years.

One of the things that we have learned from past crises is that management education tends to be a lagging rather than a leading indicator of economic performance. We get impacted with a delay and, even after the economy recovers it takes time for business education to get over the shock. This is particularly true in the case of non-degree programs.

During recessions, demand for full-time MBA programs tends to be strong. In particular, many young people who are leaving university with a first degree do not see good opportunities in the labor market and more of them consider enrolling in MBA programs.

The main recessionary impact seems to be on executive education - open enrollment management education programs and in-company programs. As a consequence, schools whose portfolios are concentrated in these types of programs tend to be hit the hardest. IMD is an example of this.

In our case, the only degree program that we have is our MBA program and it represents only about 7% of our revenues. The remaining 93% of our revenues come from open enrollment programs and in-company activities.

At IMD we saw indications of the impact of this recession as early as the fourth quarter of 2008. From advance bookings, we could see problems looming ahead for 2009.

The first quarter of this year (2009) was solid for us in terms of performance. We actually outperformed ourselves with respect to 2008 during this quarter.



But the second quarter of 2009 was difficult for us. We have a program called "Orchestrating Winning Performance" that is topical and discretionary for our clients. Typically, we have enrollments of about 500 participants for this program. This year we were closer to 250, a 50% decline in participant numbers.

As for the other open enrollment programs, we are doing relatively well with the long-term investment programs. We have a 10-week program for executives as well as an Executive MBA program. Our companies typically plan well in advance for participation in our long-term investment programs and we do not have much weakness there.

We do have a serious weakness in the short-term programs. This is especially true of new programs that we tried to launch this particular year. And, we have experienced a significant downturn in in-company programs though we still see some new business coming in.

The major impact has been from existing programs and existing customers. About 80% of our in-company programs are repeat business from the previous year and only 20% is new business.

What we have seen here is deferral of planned programs.

We have regular customers who are saying "we want to continue but not this year".

One of the reasons for this is that companies have to cut costs. But as you talk to companies, you realize that it has more to do with signaling. This is a time when companies are laying off people and it is not a good signal to make some employees redundant while sending others to executive education programs.

Judging from our advance bookings, the third and fourth quarters of 2009 will show modest recovery but will not bring us back to the levels of 2007 and 2008 executive program revenues. Our expectation is that 2010 will bring low growth. It will certainly not be the growth of the early 2000s. We believe that things will get back to normal some time during 2011 or 2012. The reason for this is that we are dealing with a much more severe global recession than the one that we experienced in 1991-1992.

We did learn some important lessons from the 1991-1992 recession. The main lesson was that management education is a cyclical industry. We couple this with the fact that management education is also a high fixed-cost industry, with mainly people and infrastructure investments. We have relatively little variable costs.

This means that the bottom line (profitability) is quite vulnerable during periods of reduced demand. As a business, we can be hard hit by cyclical declines in program enrolments.

In 1993 IMD President, Peter Lorange, and myself (as Dean of Faculty) approached the Board of our school with a proposal that we should try to make our cost structure less fixed and more variable, particularly with respect to the faculty component.

We introduced two initiatives.

One was variable compensation for what we called "buy-back of faculty consulting time". At that time, we had faculty contracts that specified an annual teaching load and we proposed to the faculty that, if they taught more, they would get compensated on a per-day basis at a standard daily rate of compensation.

Our faculty members were very responsive to this initiative. By 2007 we had reached a situation where this part of the compensation had reached 60% of the total amount of faculty salaries. By compensating faculty in this way, were able to reduce the pace of recruitment of new faculty members and reduce our fixed faculty costs.

At that time we also introduced individual and group faculty bonuses. The individual faculty bonuses were distributed based on research and development outputs, performance in the classroom and program management, and exceptional citizenship contributions. There was also a group bonus attributed to individual faculty that was related to the surplus that the school generated collectively over the current year.

The main impact for us this year is that faculty workloads have come down,

particularly with the loss of in-company revenues. However, the crisis has not had a severe impact on our bottom line. We have reduced faculty teaching activity and may not be able to pay group bonuses. However, we will be able to pay some individual bonuses. We are likely to be a little bit above break-even point at the end of the year. This set of arrangements with faculty did precisely what it was designed to do. It protected us to some extent from the current crisis.

During the 1991-1992 recession we needed a large cutback in staff numbers in order to realign our cost structure with revenue generation. This time the burden of adjustment has fallen mainly on faculty. We needed some modest reduction in staff headcount during 2008-2009. But, most of this has been accomplished through attrition: early retirements and natural leaving of people who have not been replaced.

This has been our experience at IMD.

During the last few months, Milenko Gudić and Al Rosenbloom have done an extensive CEEMAN-sponsored survey of business school impacts and responses associated with the current global economic crisis. Their findings and the sharing of your experiences during the last year will form the main agenda for today's meeting.

I am now pleased to ask Milenko Gudić to introduce us to the CEEMAN survey.

Global Crisis and Management Education: Challenges and Opportunities



General Findings from the CEEMAN Survey on Business Schools Responses to the Global Crisis

**Milenko Gudić, Managing Director
IMTA, CEEMAN, Slovenia**

I would like to thank Jim for his condensed introduction and presentation of what is going on at IMD in Lausanne.

Andrzej Kozminski was supposed to join us today. As he is absent, I encourage you all to read the interview that we had with him. It is published in the latest edition of *CEEMAN Dialogues*. Still, I would like to share with you some of his thoughts.

Andrzej Kozminski says that the world needs a new generation of management educators, capable of producing the stars that we need to cope with the current challenges. There is a need for leaders who can lead their institutions in a way that is at the same time economically sound, socially responsible, and environmentally friendly. This is the so-called triple bottom line. Now I am going to present the results of the survey. The goal of our research was to ascertain how far we have got with this new generation of management educators today. I would like to pick up some key words from Jim's introduction and follow up on them. Jim mentioned the words "crisis" and "dilemmas".

The first question is whether this crisis is something new. If we look at the way that the world is developing, we will notice some factors that have been in place for quite some time. What I have in mind is the very intensive and fast globalization process and the fantastic technological progress. In the last 30 years there has been more technological advancement than in the whole history of mankind.

There have been also huge structural and sectoral changes that have changed the economic landscape worldwide.

The institutional changes were also dramatic. We have also seen new countries emerge as well as the disappearance of others. Meanwhile, it has become clear that some institutions are not performing well and we need new ones at global, national, and local levels.

We are facing dramatic demographic changes. The populations of many countries are aging and there is increasing mobility. People are moving from one place to another. This has been accompanied by sociological and psychological changes.

It is not surprising therefore that we are now witnessing many developmental paradoxes. I cannot mention all of them but I will dwell on a few.

There is the paradox of survival. Although we are at the crest of technological progress, we are more concerned about the future of the world than ever before.

There are also paradoxes related to education. We educate people in narrow disciplines. As a result, they know a lot about very specific subjects and very little about other fields. In this way they end up knowing everything about nothing.

There is also a paradox in ethics. Ethics used to be a force that was supposed to show the way. Now the question is whether the existing ethical system is showing the way or has become an obstacle.

As Jim said, the current crisis is not the first one. When it first struck, it was a financial crisis. But because there was no appropriate response, our perception of it changed. We no longer saw it as a purely financial crisis, or an economic problem. We started wondering if it was not a moral and ethical crisis as well.

Jim also mentioned dilemmas, some of which have existed since the dawn of mankind. There is no fixed solution for them. We have to deal with them as required by the situation. What do you have to do about the dilemma of growth? How much materialism do we have versus quality of life? How much power and control do we possess? How much profit do we want versus the interests of the community? In each of these dilemmas we have to deal with the problem of equilibrium.

A decade ago we did a study on the needs for management training. We came up with some questions that are still valid today.

The first one is whether business schools are ready for change. Are we still suffering from what we have called change myopia? Are we suffering from self-complacency, which is an obstacle to further development? Are we still in a monopolistic position? Are schools mainly driven by tradition and inertia? They teach others about change but they do not change themselves. Do we have the problem of growing mediocrity? Are we averse to risk in management education?

We tried to address these questions in the survey. We have to remember that business schools have the very noble mission of creating a new generation of leaders who will run their organizations appropriately. However, business schools are increasingly becoming businesses in their own right. In order to find a balance, we need to approach business education as a business. This means that we should talk about mission, vision, strategy, and innovation as in every other business.

But we have some specificities as well. We have programs, processes, actors, and organizational and institutional arrangements to support our activities.

CEEMAN has addressed all these in previous conferences. One of them was devoted to innovation in management development. We saw that there was a tremendous amount of innovation taking place in different fields but the message of the conference was that if you innovate in one of these fields, for example in terms of programs, you cannot achieve success unless you innovate appropriately also in the other fields.

For instance, if you change a program, you need to adapt some processes accordingly. After you have done that, you may need new actors: new participants and new faculty. Finally, you have to implement new organizational solutions to support the new arrangements.

This is what we tried to address with our survey. It covered the program aspect that will be discussed in the next session as well as the business aspect of business school education that will be discussed in the afternoon.

Let me tell you how this survey fits in the history of CEEMAN.

Our history is best described in three stages. In 1993, when the association was created, we wanted to learn from others. Then, we realized that we should also learn from each other. In *CEEMAN Dialogues*, Danica Purg says that we learned extremely fast in that way and we entered a new stage: sharing with others what we had learned.

Our research belongs to the stage of learning from each other. We obtained 179 responses from 43 countries around the globe. We hope that we have also a lot to share with others. Looking forward to that, I thank you very much and I invite AI to take over from me.



**Al Rosenbloom, Associate Professor,
Dominican University, US**

Exactly a year ago, many things were happening that created the world in which we are right now. Last year, I attended CEEMAN's 16th annual meeting. We talked about local responses to the global crisis. Out of that came the idea that CEEMAN should take a leader-

ship role to find out what the schools around the world are doing. The result was that this global survey developed under CEEMAN's leadership.

We started out in December 2009 with a meeting in New York that happened to coincide with the United Nations' first conference on the Principles of Responsible Management Education (PRME). That was followed by a working meeting here in Central Europe to refine the survey.

We asked several individuals sitting in this room to help with that. I acknowledge Danica Purg's, Jim Ellert's, and Arnold Walraven's collective suggestions to us. This means that the survey reflects the collective wisdom of the people that are present here. Finally, we put the survey on line in July.

Allow me to make a short advertisement. You can still contribute your perspective on the global crisis. We have 179 responses from a number of different countries but we want to get a diversity of opinions from as many as possible; therefore, we encourage your continued participation.

Who was asked to participate? We asked CEEMAN members, IMTA alumni, CEEMAN exchange members, and other CEEMAN contacts. We sent out literally several thousand invitations and encouraged people to share their views with us. As the survey developed and the word got out, people from around the world got interested in what we were doing. There was interest in Australia, the Middle East, Central Asia, and Latin America and these regions are represented in the survey.

How was the survey structured?

We have six general categories that we wanted to explore. The first were the respondents' general attitude toward the crisis. That helped frame and influence our understanding of what specific things people perceived. We also wanted to find out about curriculum changes. I will talk more about this in the second session.

We also wanted to take a moving picture of different kinds of trends, for example in enrollment and hiring. We also have a number of institutional vitality measures, which Milenko will talk about this afternoon.

Earlier this year Harvard did a study of business school response to the global crisis. We noticed this when we were developing our own questions. We realized that their questionnaire and ours shared some questions. We included some of them along with our ideas.

As Milenko said, we obtained 179 different responses from 47 countries on all continents. This includes 26 responses from Central and Eastern Europe and 37 from Western Europe. We also had responses from Asia, including Turkey and the Middle East, as well as from other places in the world.

What kind of business schools responded? We have a wide variety of schools in terms of enrollment. School enrollments ranged from very small, medium-sized, to very large.

We asked the schools where their students come from. The respondents told us that the largest part of their enrollment numbers came from their home countries. There are also some schools that consider themselves completely

international. There are numerous approaches in terms of marketing that we will talk about later.

We also asked about accreditation. There are a variety of accrediting bodies that are involved in this process. However, on a number of occasions the respondents were not sure about the kind of accreditation that their school had.

Most of our respondents described themselves as faculty with some administrative experience. Only a few saw themselves as pure administrators. This means that we have predominantly people who combine teaching and administrative roles. We also have a nice mix of disciplines. We have people who teach Operations Management as a primary discipline, Law, and even Statistics. We have nearly all business school subjects represented.

Let me now turn to the details of the findings. We asked what the respondents thought about the crisis: Would it be short term or long term? About 75% chose the first option and only a few thought that we are going through a major transition. One aspect of this type of research is to validate the questions internally. We asked the same question using the opposite wording and we obtained a high degree of consistency.

We also wanted to understand what the perceived effect of the crisis was in each individual country where we conducted the survey and how it compared to impacts in other countries. About 30% of our respondents thought that the effect in their countries was worse than elsewhere. What this means is "yes, we are all suffering but some of us are suffering more than others".

We also asked about the perceived origin of the crisis in terms of academic responsibility. How have business schools failed to produce responsible business leaders?

Almost 80% of the respondents traced the crisis to finance. Another common theme that we heard was that the crisis was essentially about economics. Again, about 80% agreed that economics is at the core.

As Milenko said, we took a very broad view of business school responsibility in the creation of business leaders. Therefore, we asked questions about leadership and accountability. We asked whether corporate accountability was at the core of the global crisis. Three-quarters of the respondents agreed. There was also a strong sense that the crisis stems from a lack of responsible leadership.

We also asked if the crisis had anything to do with ethics and ethical decision making. Forty-two percent of the respondents agreed very strongly that "yes" ethical decision making was at the crisis' core. They thought that in addition to finance and economics, this is a crisis that causes us to think of our responsibilities in terms of ethics.

There was an opportunity in the questionnaire for the respondents to express some other ideas about these broad issues.

Some stated that the crisis highlights the severe limitations of purely free-market systems. This means that, to quote a respondent, "crises of this type are bound to occur when markets are not subject to appropriate levels of regulation and individuals are consumed by material greed at the expense of any other moral values. We are talking about the inability of the system to punish the transgressors who have misled the marketplace either intentionally or unintentionally".

Another respondent wrote: "A shift is taking place to an innovation economy based upon knowledge and creativity. This is bringing structural changes in the economy. It is a crisis of trust induced by the diversity of personal ethics. This is viewed as a challenge to us in terms of our ethics and the increase of income inequality is at its core".

Finally, there is an observation that the crisis proves that the free market actually works. "Stupidity in financial systems and decision-making does not work in the long term." Another observation is that academic paradigms are to blame. What we have chosen to emphasize in teaching has influenced the crisis.

This takes us to the question of how well we are doing as a business school. We asked some questions about how we see our responsibilities in what we do as professionals. These questions ask us to reflect on whether we simplify our

thinking in our research and teaching too much. Over half of the respondents agreed that we are trying to make things in our research too simple although the world is a lot more complex.

Are we too biased toward the bottom line in terms of what we do in the classroom?

There is agreement that we seem to be stressing the quantitative bottom line too much. That does not mean that we should not be concerned about it but we may have an opportunity for rebalancing.

Do we have a role to play as business schools that are developing and nurturing current business leaders? The respondents thought we share some of the responsibilities for that.

We also found that in more quantitative disciplines, such as finance, accounting, and economics, there is less agreement that business schools are to blame. In more behavioral-oriented courses, such as organizational behavior, general management, and strategy, there is higher agreement with the same proposition. This shows that we often see the world through our own eyes.

Have business schools experienced any external pressures for change given the magnitude of the global crisis? Little pressure to change the curriculum was perceived from the government versus some pressure from civil society organizations. However, the biggest effect is generated by the general public. For example, the popular press is saying that business schools are responsible for the current crisis. They are getting increasingly negative publicity.

At the micro level, given all the things that are happening, we asked about perceptions of competition in both local and international markets. Specifically, we asked whether competition has changed as a response to the crisis and what the respondents' future projections are.

The answers are very interesting and I hope that they will prompt some of our discussions. Respondents felt that even before the crisis there was a decrease in competition between business schools. The effect of the crisis was described in the same way: competition in my local market is going down. It has even been projected that it will fall even further.

Similarly, international competition between business schools was also described as decreasing. As a result of the crisis, that kind of competition is experiencing a further decrease.

In my mind this raises an interesting question. Are we consolidating business schools and thus buffering ourselves or are we finding niches that help protect us from competition? I invite you to join a discussion of this interesting finding.

Jim Ellert

Before opening up the floor to discussions let me briefly summarize what we heard so far from Milenko Gudić and Al Rosenbloom.

Based on the survey results, the current crisis is seen as a short-term rather than a long-term crisis. Its impact is more strongly felt in some countries than in others. Most hard hit in Western Europe have been Spain and the UK. In the CEE region, respondents from Hungary and Latvia felt that they had been harder hit relative to other CEE countries.

Survey respondents blamed the crisis on many things such as finance and economics, corporate accountability, and business ethics. There is a current debate on the excesses of free markets.

As business educators, we are self-critical of the way in which we teach. Perhaps we simplify too much and put too much focus on the bottom line. However, business educators do not seem to accept very much responsibility for what has happened.

There is some external pressure for change, coming mostly from the public, far less from governments.

Most business schools feel that the level of competition among schools is decreasing rather than the other way around.

Later, we will look in more detail at how business schools are responding in relation to their customers as well as in terms of internal responses.

Now, it would be good to have a discussion and see whether you agree or disagree with what we heard.

Peter Calladine

My impression is that business schools are sharing the same set of problems and challenges but it seems that they are weathering the storm relatively well. If there is an impact, it is felt in particular programs. If schools are suffering from reduced enrollment numbers in in-company programs, that is offset to some extent by the intake of master's and undergraduate programs.

Thus, despite the downturn in some programs, institutions are doing relatively well in general terms. It is quite a different situation from what we saw in 1990-1991. That paradigm does not map well onto what I see in the present. I think that this topic is worth pursuing further.

Leonid Evenko

I am curious to know if there are substantial differences in reactions to the crisis in developed countries, where the leaders in business education are, versus the developing countries.

Al Rosenbloom

Yes, we did find some differences. We will talk about this in greater detail later but I can give you as an example the question that asks whether the respondent's country has been affected disproportionately.

Irina Sennikova

I was somewhat surprised to hear that competition is decreasing. We are competing locally with a large number of other business schools as well as inter-

national schools. Many Latvian undergraduates go to study abroad. What is your explanation of this phenomenon? Why do business schools say that they perceive reduced competition?

AI Rosenbloom

I was surprised too. This is an interesting discovery that we need to discuss and analyze together.

Irina Sennikova

My hypothesis is that business schools are cooperating more. For example, there are joint PhD programs in Latvia, where several business schools share resource costs.

AI Rosenbloom

In addition to that, I would suggest that we probably feel that we have distinctive niche markets that protect us from the competition. If that is the case, we are likely to feel that competition matters less to us and hope that we will see this carrying forward in terms of enrollment.

Jim Ellert

One of the interesting issues that surfaces from this survey is the claim that some aspects of business education may be outdated and new ones may be needed.

Many financial analysts complained about the irrational exuberance of financial market pricing in the late 1990s and correctly predicted the upcoming equity market crisis that we experienced in 2001. Many of the same analysts cautioned as early as 2004 that the combination of low interest rates, excessive escalation of home real estate prices, securitization of home mortgage loans, the development of credit default risk swap contracts, and faulty bond ratings for securitized loan packages would create the next crisis.

Many are losing faith that markets are pricing financial assets efficiently and note that contemporary models of financial asset pricing are based on the assumption of "efficient markets".

There is an emerging branch of finance labeled "behavioral finance". This branch tries to build mathematical models to explain how irrational financial markets perform. However, we are nowhere close to discovering alternative models to the existing financial theory that cannot explain "bubbles" but does a good job in explaining the foundations for long-term investment returns.

Milenko Gudić

I encourage you to read the interview with Ichak Adizes in *CEEMAN News*. The title is "Are Business Schools Museums of the Past?" In other words, the big question is whether we teach about what has happened or about what is going on. I think that it is both.

Once I was editing a magazine and had to choose one of two articles. One was on the success of Enron, which was a very successful company at the time. The other one was by Jim Ellert. It argued that what was going on was a bubble economy.

I chose to side with the optimistic view and give the readers a positive prospect. Therefore, I recommended the Enron case. Only later did I discover what a big mistake I had made. But this example shows that we, in business education, do take a future perspective and do not necessarily focus on the past.

Slavica Singer

I would like to draw your attention to a very specific part of this survey. I have a disagreement with the way how you interpreted it. It concerns the external pressure.

If you paid attention to the numbers that we saw, they show that none of the types of such pressure makes any difference to us. Neither the government,

nor civil society or anything else really matters. If this is so, we have to discuss how business schools can change if they do not feel much external pressure. The change must come from inside but that is a very difficult thing.

Sergey Myasoedov

We experienced a curious situation at my school. Demand for pre-experience programs has increased during the crisis whereas demand for post-experience programs has fallen. I have heard that the situation is similar in the UK. Have you spotted such a trend elsewhere and do you think that it is a long-term phenomenon?

Al Rosenbloom

We will deal with this issue in the next session when we will be looking at the relationship between curriculum innovation and what is happening in terms of enrollment. I invite you to revisit this issue.

Wil Foppen

I think that we may be overestimating the impact of business schools on the economic crisis.

There are all kinds of theories that could hypothetically have an impact. Examples are transaction cost theory, which is pretty much based on stimulating opportunism, and agency theory, which is based on distrust and how to deal with it. But the actual impact of such theories in real life is rather low.

Most people in responsible positions do not hold an MBA degree and have not had any business education. This is not a reason to blame them. If they had had any business education, the situation may have been even worse. We just do not know. But we could probably contribute to the recovery, for instance by means of exemplary behavior. We could demonstrate that one can do better.

However, listening to Jim Ellert, I wondered if his school is not more focused on earning than learning. He talked about the business model of his business school. Of course, that is important because without a good model you cannot run a school. But let us look at ourselves. Are not we often more concerned about earning than learning? Should not it be the other way around?

Derek Abell

I would like to make a comment about the backward-looking versus future-looking behavior of business schools. I find this to be a totally fallacious set of arguments. There is only one place where we can learn about the future. That is the past. We do not live in the future.

The role of business schools is to build a bridge between the past and the future by means of what we call currently useful generalizations. We look at what has worked and what has not worked and try to bring this to the attention of people who will guide future action. There is no other way to learn about good and bad practices. We are not clairvoyant magicians.

This means that we have to look back but with a skeptical eye. Perhaps we are not skeptical enough. However, I do not buy the argument that business schools are living entirely in the past. We are looking in the past in order to learn about the future.

Ludmila Murgulets

Of course, we cannot teach what will happen in the future but we have to teach the appropriate thinking about the future. Therefore, we have set up an entrepreneurship association in Russia.

Our goal is to unite all people who are willing to think about what is right and what is not. We certainly have to know the past but we cannot rely on existing models or existing knowledge. It is very difficult to do that inside a school. We need to change that. The main factor is how we think. That is what we need to change.

Responding to Customers Needs: Implications for Faculty, Research, and Educational Programs



**Al Rosenbloom, Associate Professor,
Dominican University, US**

In this presentation, I would like to reflect on the discussion that we had of the global survey. More specifically, I want to discuss the audience comment concerning the balance between “earning and learning” that business schools have to find. I would also like to look at curriculum changes.

We are at a crossroads; schools now have to think about which way management education is heading. We asked in our global survey if some school curricula had changed. As always, we can look at the data and see the glass as half full or half empty. For some schools there is no change. But I would like to focus on those that have reported that there has been some change in their curricula.

As a follow-up to that question, we asked where precisely the change was.

Again, we see lots of very interesting things happening. Across all programs we see new cases being introduced. New assignments are being developed as responses to the global crisis. There is a recognition that cross-disciplinary teaching is important, which is in line with our view that the dimensions of the crisis are also multidisciplinary. We saw that economics, ethics, finance, and leadership all play a role in the crisis.

There is a recognition, especially in corporate training, that it makes sense to invite executives to share their experiences. As a result of all that, I would say that there is a fair amount of innovation going on.

The survey asked the respondents to describe what is going on in each of the various disciplines. We got 300 open-ended responses concerning what schools are doing. After this conference, we will summarize all open-ended responses and post them online so that we can see the richness of what we are doing.

One respondent wrote: “One of the changes that we have noticed is a shift away from prescriptive ethics and toward philosophy and epistemology as well as a focus on practice and the importance of corporate social responsibility”.

Another respondent said: “Another interesting development is that better connections are being established between economics and sociology. In my school, an evaluation of financial instruments is going on and there is greater interest in financial regulation. We are now including corporate financial crime as a credit unit. A new course that we have created at my school is anti-crisis management as well as turn-around management for entrepreneurs and managers.”

In the MBA program there is similar innovation going on:

“We are trying to explain the weaknesses of current reporting system and the challenges of the future. Balancing the books in lean times is also a new subject.”

"We have doubled the time devoted to ethics, using live cases."

"We are also looking at emotional intelligence in our leadership courses."

"It is very naive to believe that people behave in a rational way and all their behaviors are easy to predict. Yet this assumption is incorporated in the majority of the courses. I try to explain to my students that a holistic approach is needed and there is a need to understand hard and soft data."

I connect this with Jim's (Ellert's) earlier reminder about what is happening in the field of finance as well as behavioral economics and the need to understand human behavior.

Closely related to the curriculum is the awareness that we need faculty who are capable of teaching such courses.

The survey asked what the trend was over the past two years with respect to the crisis and what forecasts could be made. The trend for the previous two years was a decrease in hiring. The current response was to be stable.

Over 60% of respondents said that because of the crisis there is no change in hiring. The forecast for 2010 is some stability with some decrease. The same trend will affect part-time permanent faculty. There is also some decline in visiting faculty and guest lecturers.

Related to all this is what is being done in terms of institutional research. One of the things that I have been thinking as I analyzed the data is how we interpret "research". In this set of responses we see research in a formal/traditional way.

However, "research" may also be seen as time during which one reads and talks to colleagues not necessarily the formal definition of research that academics are involved in. We see a degree of stability in research funding for the past two years. Some moderate decrease is expected next year but some stability will be maintained as well.



Irina Sennikova, Dean, RISEBA, Latvia

I have a feeling that it was a bit too early to conduct the survey that AI talked about. I think that if the crisis started a year ago business schools would start feeling its effect a little later, especially the ones who run a traditional academic year cycle. I believe that if the survey were conducted now the responses would have been different.

Nevertheless, let me tell you how RISEBA has been affected by the crisis and what we are doing about it.

First of all, I have to explain our business model and what kind of school we are. We were established 17 years ago as a totally new school. Starting with 70 students back in 1992 we now have 4,500 students. We started our development as an undergraduate school, unlike many others that started with executive education or an MBA program. By now we have 16 different programs.

Seventy percent of the students are in bachelors programs and 25% in masters. We offer an MBA program, specialized masters programs, and pre-experience ones. We run a PhD program as well in cooperation with two other Latvian schools – BA School of Business and Finance and Ventspils University College.

Concerning the crisis, I think that we have to be aware that we are actually dealing with two crises. One is economic and financial. However, we should not forget the demographic crisis.

The number of school leavers in Latvia is steadily decreasing. This year we are enrolling students who were born in 1990 and 1991 when there was a sharp fall in birth rates, which continued to decline until 1997. That was the case in all former Soviet republics in Europe.

That is why I was surprised to hear that the general perception is that competition is decreasing. On the contrary, I feel that competition is increasing especially in view of the fact that many young people are leaving the country to seek educational opportunities abroad.

During the boom years of the Latvian economy we experienced a “hand drain” when low-skilled employees were going abroad to earn a better living. Now the opposite trend has kicked in: we are clearly witnessing a “brain drain”. Those who can afford to pay tuition fees and the cost of living abroad choose to do so, especially in the UK.

That is the reality. How can we cope with it?

Of course, we are affected by the crisis. Our enrollment this year has fallen by 30%. Nevertheless, our overall portfolio still looks good. We have not been strongly affected by the demographic crisis and our enrollment in bachelors programs has not suffered. Naturally we are happy about that, as we are about the fact that the quality of our students is very good, especially in the English-language programs.

This year we had 27 students competing for three budgeted places, as they all met our scholarship criteria and their average grade was above nine. I think that quality is a response that we can give to any crisis. This is one of the things on which we can capitalize.

What other responses do we have?

One is diversification. Of course, one can argue that having a diverse portfolio is not necessarily good. Nevertheless, we have chosen to have a broad range of programs. Five years ago, we started offering specialized masters

programs in areas such as human resource management. We were first in the market, the program was highly demanded and very successful.

This year we launched a masters program in project management. I am not sure how long this program will survive but I think that, given the current situation, we will also have to offer programs that have a shorter life cycle in order to satisfy the immediate needs of the market.

We are also offering foundation programs, the first level of higher education, as they are called in Latvia because in certain industries legislation requires that companies have specialists with higher education in their area. Foundation programs give access to it in a shorter period of time and therefore are attractive to many people.

Another response to the current situation is multidisciplinary.

Traditionally, all our programs were strictly related to business: Business Study, European Business, Electronic Commerce, and so on. However, a year ago we launched new programs: Bachelor in Public Relations and Advertising Management and Master in Integrated PR Communications. The programs attracted different type of students and proved to be very successful.

We looked at the kind of programs that attract Latvians abroad. The tendency is that they choose programs that enhance creative skills and which are in limited supply in the Latvian market. As a response, we launched a bachelors and masters program in audiovisual media arts. It is aimed at creative people who would like to work or are already working in the film and television industry or any other media.

We have also started developing a concept called "Business Meets Arts", thus emphasizing the complementarity of two seemingly different areas.

We intend to capitalize on our expertise in business and entrepreneurship education and bring it to creative industries as we see quite a lot of potential in these areas. This is our third response to the economic and demographic crisis.

Of course, we are looking at ourselves internally. We realize that our revenues will fall this year. We are using this opportunity for self-scrutiny. We want to find out if we are efficient enough and our house-keeping is in order. As managing cash flows is very important in times of crisis, a year ago we hired a financial director. Her job is to make sure that we do not have deficiencies in our accounts and ensure efficient use of financial resources.

We have decided that the crisis is also a time of opportunity. When the Latvian economy was booming, real estate prices skyrocketed. Now the situation has changed. We saw this as a good time to buy land and start building a new campus. We hope that by the time the crisis is over we will move to our new dream home.

We believe that the essential thing is not to be too pessimistic about the future, or too optimistic, either. We need realism.



**Leonid Evenko, Rector, GSIB and
President, RABE, Russia**

The period from 1999 to 2009 was quite special for Russia. In 1998 there was a financial default in our country followed by a couple of years of recovery and an economic boom fueled by the rising price of oil and gas.

Quite a lot of money was available and as a result we saw the appearance of many luxurious new restaurants, night clubs, currency exchange offices, and business schools. No less than 104 institutions offered programs called MBA and 93 institutions received a license to issue a state MBA diploma.

However, only 25 had MBA programs with intakes of at least 50 students a year. Even fewer had accreditation by international institutions such as AMBA or AACSB.

In 2008 we began to feel the impact of the economic crisis. For example, the fall in enrollment at my school was 30% on a year-on-year basis. However, this comparison is somewhat misleading because we had had a bumper year in 2007. Until that time, we had been increasing our revenues by about 15% each year. At present, the situation is much worse. Some schools in Russia have suffered a decrease in revenues of up to 50% or even more.

What is the explanation of this? We have found some interesting research by a Western researcher. He found that people compare the value of the degree that they will receive and the opportunity costs. During a crisis, the value of a degree is higher. However, this is true of Western countries.

In developing countries the opposite is true. People assume that their degree will have a lower value than the opportunity costs of the study. This is true not only in Russia; the research found that the same phenomenon was visible in Iran.

Additionally, corporations reduced their education programs very substantially. At my school, 75% of the students pay individually whereas 25% are sponsored by companies. Firms that had been sending students to our school regularly are now telling us that they do not have enough funds for that.

However, other schools are in a worse situation because they have much more exposure to the corporate world. Some of them, including some of the highest ranking in Russia, have had to close their MBA programs.

Nevertheless, this situation also has a bright side. Our students are now being selected more carefully and we are getting better quality. Also, we have witnessed increased competition in our market. We are competing for these good students. Earlier, the competition was based on school brands. Now it is driven by particular programs.

Our journalists did not do us a favor when they wrote that it did not make much sense to take a Russian MBA program. They quoted Henry Mintzberg, who criticized the Harvard MBA program. However, we do not have a program of that kind. Ours are absolutely different.

Nowadays more people are taking executive MBA programs and doctoral degrees in management than regular MBA programs. An executive MBA in Russia is for top executives such as presidents and vice-presidents. They may not understand the theory very well but when you start discussions, they participate actively and make good contributions.

We are flexible in the sense that it is possible for course participants to make up combinations of courses that best suit their needs. This type of executive education is becoming increasingly popular.

Another type of education that is expanding is in the area of bachelors programs. Our country has introduced a new educational arrangement under which high-school graduates take a standard exam and, if they pass it successfully, they can enroll at a university without another exam. Provincial university intakes fell up to 70%. However, city universities increased their enrollment numbers as a result.

We have a person on our advisory board who graduated in the 1990s. He applied to Wharton and obtained a degree from there. He said that if you compare bachelors and masters graduates at Wharton, you will see that the former have better careers. They graduate at 23, whereas the MBAs apply at 25 and obtain their degrees at 27. This leaves them much less time for a career. The younger you are when you start your career, the better your chances are. This is an interesting phenomenon but I do not know if it is a temporary or long term trend.

We used to rely on a strategy of differentiation and we increased our prices. During the crisis 80% of schools have reduced their prices. Some have not cut their prices because they think that it does not make sense to downgrade yourself and be perceived as an inferior school.

I do not think that good education is very price sensitive. Once you have made up your mind to take a good program, you have made a psychological commitment and you are not likely to be influenced by fluctuating prices. Going for business education is a very serious decision and once it has been made it is not easily changed.

Anyway, differentiation is not only a marketing device but is related to innovation. Everybody understands that theoretical programs have lost their significance. On the other hand, cases are not really consistent with reality. Even good cases that we used four or five years ago do not really reflect what is going on in Russia.

At our school, we focus on project-based client-driven learning. Every student has to complete at least five projects during his or her period of study. For example, I teach strategy. In addition to the other tasks, the students have to carry out a group project based on one of their companies. If there are 40 people in the class, we would divide them into eight groups. Each of them has to develop a so-called strategic statement.

They study the strategy of the company in question and then make a presentation. This is a wonderful source of information about Russian business reality, analyzed by a group of students by means of an exchange of opinions.

Electronic learning has also become quite common. Another innovation is a combination of class work and visits to companies.

We were among the top three schools in Europe in terms of numbers of open electives. But falling student numbers have forced us to reconsider this arrangement. We now offer these programs also to other students of the Academy of National Economy as well as to managers who would like to take them as executive development programs.

I teach a management program for top executives with a company president on a team-teaching basis. He divides the group in two parts. One consists of owners and the other is made up of company managers. He asks the managers how they can deceive the owners whereas the owners have to think how they can prevent the deception. Then they exchange some very interesting ideas.

The final question to the owners is which of the managers they would like to hire. The managers are also asked to indicate which of the owners they would like to work for. The interesting thing is that some real hiring takes place after such interactions among participants.

I think that we are facing a breakthrough in business education in terms of internationalization. For example, teaching in English is becoming common and there are an increasing number of courses that are taught in English.

Unfortunately, only about 30% of our students master that language well enough to study in it. We have a program for students with a Cambridge certificate as well as a course called "English for Busy People". However, I do not think that most business education is going to be in English in the foreseeable future because our market does not require that.

Another interesting trend is the emergence of more consortiums. The most recent one was launched by MIRBIS school in Moscow. It involves five schools, some of which are outside Russia. Yet it is not very easy to start a joint program because of existing bureaucratization. For example, it is hard to hire a foreign professor. We hope that this will change when Russia becomes a member of the World Trade Organization.

Foreign accreditation is also essential. AMBA is the preferred provider in Russia but I think that half a dozen schools also have CEEMAN accreditation. Again, I do not know if this is a temporary trend or a permanent one.

After the crisis the structure of the business education market will be different. Bachelors, masters and doctoral programs will claim a bigger share than they have so far. MBA programs will be smaller but their quality will improve and there will be more specialized versions.

In the past 10 years there were adopted state requirements for MBA programs that we had to adhere to. The Russian Association of Business Education has proposed that standard for MBA education in Russia and the question now is whether the government will continue to play the leading role in controlling the MBA practice or independent accreditation will be introduced.

Cooperation with business has increased over last few years. Some schools are entirely financed by business. When this happens companies become directly involved in the schools' affairs. This enhances client orientation and the quality of the education.

I think that in the near future, we will have better quality in business education in Russia. We will have stronger competition but also the positive influence of advanced professionals and more international integration.

Discussion

Irina Sennikova

We mentioned the importance of English in business education. It cannot be overestimated. The demand for programs in that language is very high and enrollment numbers are high. People not only want to study in English but also to work in English. That can make a big difference.

Wil Foppen

In the West we take it for granted that the language of business should be English. At Maastricht University we pride ourselves in the fact that all our programs are in that language. That makes us competitive internationally and allows us to draw foreign students.

However, it is high time that we start considering introducing Chinese as a mandatory course. For all kinds of reasons China is going to play a very important international role in the near future and we had better be prepared for that. If we claim that we have a global orientation but do not teach Chinese, there is something very wrong with our concept.

It is not easy to get people to realize this as yet. I am trying to get my 14-year old daughter to take Chinese as a third language but she is refusing for the moment. I have been struggling for six months to get her to understand the importance of Chinese, because it is going to be a very important language in the future.

Elena Zoubkova

I am surprised to see the great interest that Russian businessmen have in China. We have set up a Chinese Center at our school, which is one way of offering value to the students and eliminating the negative effect that the crisis is having on business education. You have to give them something that they need. Very many Russian businessmen see a potential for the development of their companies in China and India. If business schools do not react quickly to this challenge, they will lose part of the market.

Boris Lezhava

I would like to bring up an issue that has not been mentioned so far. What I have in mind is pricing policy. During the boom years we all increased our prices but at the moment our students have less money in their pockets. They have time but no money. In some countries banks collapsed and students cannot get loans. What should we do about that?

Irina Sennikova

As a response to this a lot of schools have cut their prices this year. We had a discussion about that at our school too. Finally we decided not to decrease our prices because in that way we would send the wrong signal to the market. Our customers would think that our quality has gone down too.

Nevertheless, we have provided some incentives for our students. We have allowed them to pay monthly installments. We also offer scholarships and significant discounts for academic performance. We also provide discounts for people who come from the same family.

Leonid Evenko

In Russia, the best schools have not cut their prices either. However, we offer discounts for early payment of tuition fees. For example, if you pay in August instead of October, we offer you a 15% discount. In fact, inflation is running at 12% and the ruble is depreciating against the dollar. The students understand that well.

Russia is a big market and it does not make sense to cut your prices if you are a good school. If you do that, you will lose your positioning against your competitors.

Sergey Myasoedov

I have the impression that we are giving the right answer to the wrong question.

The question of what to do about prices in a general sense is wrong because each of us is in a different market niche. There is a Latvian market and an Estonian market. Even in Moscow, the schools have completely different price policies.

For example, we did not cut the price of our Belgian program, which is denominated in euros. Because of that denomination, it has become almost 35% more expensive. We understand that we will lose some of our clients in this way but we will stay within the same market segment. For other customers, we provide less expensive programs.

Our market is not homogeneous. Therefore, before we start discussing prices, we should analyze the peculiarities of the local market in which we are operating and what kind of customers we are trying to reach.

Danica Purg

I believe that some of you might be interested in reading a book by a German professor Hermann Simon *Beat the Crisis; 33 Quick Solutions for Your Company*. It has already become an international best-seller and I read it in order to find out what I could learn for my school because in a sense it is also a business company.

The author says that cutting costs can improve your budget by 10%. On the other hand, better marketing - for example by moving people from administration to the marketing department and training them appropriately - can generate 30%. I agree with this point completely. We are in a business where a lot of attention must be paid to marketing and sales. Our product is very difficult to sell.

As a result, we set up a seminar for all our staff. Everybody took the course and we discussed how we could optimize our profitability. We did that to make people more aware what kind of business we are in and what we have to do.

Hermann Simon advises not to cut prices but to do something extra for your clients. Based on his advice, this year we did some special courses in marketing and some other topics for companies that are our partners.

We wrote to the companies and said that we wanted to support their activities in this difficult period. We have an excellent professor and here is a seminar for you. To be honest with you, we did not get as much attendance as we hoped for. Some managers simply do not have time to come to a seminar during a crisis. Nevertheless, our gesture was appreciated.

I think that as managers of business schools we have to think about our priorities, what is more important. We should visit customers and try to understand what is important to them. We also have to look at our organizations and think how we could optimize processes and be more internationally exposed. We should think about our strategy, discuss it with the management team, and decide what exactly to do in terms of priorities.

Sergey Myasoedov

I would like to make a comment concerning the language question. Some speakers stated that English language tuition is very important. Being from a culture that is half-European and half Eastern, I would not express outright

disagreement with that. When we disagree we do it in more polite way and say "yes, but..." So I would say "yes, but..."

There is no doubt that English is the language of business just like Latin was the language of science in the Middle Ages. However, when you have to deal with a specific situation, things are much more complicated. For your information, demand for English language education within business education in Russia accounts for only 7% of the total. I am not saying that this is good or bad. It is our market and we have to take that into account.

I have some English-language programs on my curriculum. The young generation is studying English and the demand will be greater in the future. Maybe the future belongs to English or Chinese but right now let us just listen to the market.

Manuel Escudero

English is playing a predominant role at present but we must look to the future. China, India, Brazil, and Eastern Europe are playing an increasingly important role in the world's economy and this is reflected in the emergence of good business schools in those regions.

In the future, business education will not be dominated by the Anglo-Saxon world and English will not be the only important language. Other languages, including Spanish, will also be important. I am not saying that because I am Spanish but because it is quite clear which way the world is going.

I was amazed to learn that the percentage of GMAT-takers in some countries is extremely low. One reason for that may be the lack of availability of that exam in languages other than English. Perhaps CEEMAN should work for the development of GMAT tests in languages such as Mandarin, Hindi, Turkish, and Russian.

The second point that I would like to make is that we are in a funny situation in terms of protectionism. Globalization has not stopped but there is a serious shift toward protectionism. What is the effect of this on business education?

We are probably going to see many types of protectionist policies in many countries. Will that have implications in terms of competition in business education? I do not know. However, I believe that it is crucially important for business schools to form international alliances and this will continue to be the case in the future.

Responding to Internal Business Needs: Institutional Responses



**Milenko Gudić, Managing Director
IMTA, CEEMAN, Slovenia**

Here I am again with another presentation that contains facts and numbers. I will try to keep it short so that you do not get bored. And I promise you that the speakers after me will have some more entertaining material for you.

During the morning session, we heard some surprising results. Competition was found to be decreasing rather than increasing during the current crisis. During the break Danica Purg told me that one possible explanation is that only very good schools have participated in this survey. Because they are so good, they do not face too much competition.

This reminds me of a conference in 2003. It was an economic forum, a bit smaller, CEE version of the one in Davos. It was a meeting of various high-ranking political and business leaders. There was a panel discussion called "The Future of Management Education in Post-Communist Countries". The panel members were Vladimir Mau, Chairman of the Academy of National Economy of Russia, Leonid Evenko, President of the Russian Association of Business Education, Andrey Volkov, Dean of the Skolkovo School of Management in Moscow, Krzysztof Pawlowski, founder of one of the first private business schools in Poland, and myself.

My role was to present the current trends in business education. I put a strong emphasis on the increasing competition. I also said that the business education industry was globalizing, which inevitably entailed competition. Then we had questions from the audience.

Somebody agreed that competition was increasing and asked Krzysztof Pawlowski which business schools in Poland were going to survive. I thought that he would think for a long time before he could give an answer but he responded right away: "Only the best ones and the worst ones".

The best ones will be able to compete. As for the worst ones, there will always be some demand for a piece of paper that represents a diploma. I think that this may explain some of the results in our survey.

One of the things that I would like to dwell on in this presentation is institutional longevity. How long can schools survive if things get worse? Another issue that I would like to discuss is enrollment trends. We heard quite a lot of comments about this already. Finally, I will say a few words about financial solvency on the income side and the expense side.

We asked our respondents how long they thought their schools would survive if their revenues dropped by 5%. The available answer options were two, three, four, and five years.

We also asked different versions of the same question: How would they be affected by a 10% drop in revenues, a 20% drop, and so on.

Most of the schools stated that they would survive despite these drops. One possible explanation is that business schools are extremely good at weather-

ing a crisis. Another possibility is that the structure of competition may change during a crisis.

Concerning enrollment trends, there have been some changes in undergraduate and MBA programs. Wherever such changes have occurred, the trend has been negative. Even greater slumps are expected for the future. Interestingly, no strong fall in Executive MBA enrollment numbers have been observed although the predictions for the future are quite pessimistic. The most serious fall has occurred in corporate education and more than half of the schools expect a further reduction in the future.

Most schools have reported a decrease in financial solvency from the income side, which refers to cash flows from operations in the past two years. As for future forecasts, a modest decrease is the norm.

We discussed tuition fees in the previous sessions. As Sergey Myasoedov put it, this is probably the right answer to the wrong question because of the huge diversity of pricing policies across our schools.

Some speakers also stated that a price cut would send the wrong message. Customers would think that it involves a deterioration of the quality of the education that the schools provide.

Some of you mentioned discounts as a way of adjusting a school's pricing policy. No significant change in the past two years was registered in the schools that we surveyed.

However, there is a perception that discounts will play a more important role in the future. Some speakers in the previous sessions also indicated that there exist so-called hidden discounts, masked by inflation, currency depreciation, and so on.

In conclusion, business schools are not relying on reduced tuition fees to deal with the crisis. Rather they have concentrated their efforts on their program structure and content to attract customers.

We have also studied the level of sponsorship that schools have received in the past two years. This is important because it is an indicator of how well schools are related to other stakeholders, be it in the government or the corporate worlds. Most schools did not report a significant change in the past two years, and some reported a modest decrease. But others have enjoyed a significant increase. This means that their stakeholders have stood behind them. This is a value that should be cultivated.

In the previous session AI talked about institutions' commitment to research. In the survey we asked about the level of external funding for research that schools have been receiving. There has been a modest decrease, although recently some increase has become visible again. Schools may be more likely to apply for research funding either nationally or internationally. We see a lot of consortia that may have been founded for that purpose.

Financial solvency on the expense side involves capital expenditure. In the past two years there has been some decrease, although in some isolated instances increases were recorded as well. Irina Sennikova stated that because real estate prices crash during crises, they are a good time to buy some property.

Irina talked about change in capital expenditure due to the crisis. Some modest increase may take place in the long run although some decrease is also likely to take place at some other schools.

Leonid already brought up the issue of institutional marketing expenses in the past two years versus program marketing. Right after the crisis there was an increase in institution marketing. However, the prevalent expectation is that a decrease will occur in the next two years.

As for the marketing of individual programs, there was a downward trend before the crisis whereas now we see a significant increase. There is competition among programs rather than institutions. For the future, marketing of programs is again expected to decrease.



Nerijus Pačesa, Dean, ISM University of Management and Economics, Lithuania

My presentation will focus on the experience of my school. It was the first private educational institution in Lithuania, established in 1999. I believe that we are still one of the few institutions in private education and one of the best.

We have nearly 1,800 students. Our programs range from a bachelors degree to a doctoral. We have degree and non-degree programs in executive education as well.

How do we view the financial crisis? We grew during the past 10 years very rapidly. Being a teacher of strategy, I always tell my students that one of the dangers that a company may have to deal with is fast growth. After Lithuania's break-neck economic development in previous years, we are now experiencing a drop of 15% of GDP. The downturn is quite obvious because a lot of the in-company training that we have sold recently has been cancelled.

Nevertheless, degree programs look quite good although there is a small decrease in student numbers. Meanwhile, unlike many other schools, we have increased tuition fees for 2009 by 5%. We have also introduced a new program that is 30% more expensive than any existing program. It is also our most successful one.

This suggests that our programs are not very price-sensitive. It also proves that our positioning is correct. We position ourselves as the best provider of education in management and economics in Lithuania.

In 2007, executive education accounted for 25% of our budget. That was a substantial percentage. Now it accounts for only 5%. This is a 60%-70% drop and a major challenge. However, we are happy that this drop happened in 2008 and not in 2009 because we got ready for this year.

We have the same demographic problems as Latvia and Russia. This year we had 15% fewer applicants to universities. That means that competition has definitely increased. Another negative trend for the local market is the increasing international competition. Many of our applicants, whom we have admitted, are also on the waiting lists of international universities and wait for a seat till the last moment. It is very good that we compete against some of the best universities in Europe but it is very bad to lose students.

Although we lost some of our enrollment, we have a higher proportion of good students. This is a paradox of the crisis. Students in tough times are looking for better value.

As I said, we have experienced a drastic fall in executive education. Companies are cutting their budgets and this trend is likely to continue in 2010 and even in 2011. This is bad news for us. However, our economy grew very rapidly for the past seven or eight years and some people made a lot of money. That means that they can pay their own way.

We also notice that there is a shift in demand. There used to be a strong market for soft skills such as leadership and team-building. Now our clients want to become more efficient and have a practical approach to business. This is the trend that we are experiencing in Lithuania. There is also some demand for consulting in decision-making processes and increased effectiveness.

As a result of the changing external environment we see that our culture is also changing. The shift is from a focus on relations to a focus on results. Management is becoming more diverse. The functional organization is not functioning any more. We need to be much more cross-functional.

Information and communication are becoming essential in terms of keeping faculty and staff focused and doing the same things with a lower budget without reducing quality. The need for innovation is increasing because everybody is looking for new ideas.

Definitely we put a lot of emphasis on process management. We have implemented quite a lot of new things and changed our processes. This has enabled us to enhance our effectiveness. We have also implemented some structural reorganization and shifted toward a flatter organization. There is more delegation and empowerment. We have introduced a matrix structure for some interdisciplinary domains.

We are a special school in the sense that we have quite a lot of creative elements in our curriculum. For example, we use art in our teaching process and this helps us look different in tough situations.

When you are going through a hard time your staff needs to be united. This means that the need for involvement is very high. When everything is going well it is not so important for everybody to see that everybody else is contributing because people are happy. In the current situation it is essential for everybody to see that everybody else is strongly dedicated.

I mentioned the fact that we have increased our prices. There was a demand for better quality at that time. By raising our prices we challenged ourselves to enhance our quality.

At the moment, our efforts are concentrated on dealing with the crisis but we cannot disregard the future. We need to look ahead, five or 10 years. The key to competitiveness in our case is to be focused and specialized.

Another very important factor is an ability to create knowledge. Right now those who were involved in executive training have time. They are using it by thinking what we could do in the future. We have set up a program for national and regional case development.

In November 2009 we are going to have a scientific conference that has already generated considerable interest. Some of those cases will be presented at that forum. They are based on national and regional experiences of companies. This does not mean that we did not use such teaching methods before but at present we are stepping up the use of participative techniques. Lecturing is playing a diminishing role.

During the fast growth period, we did not pay much attention to cultural issues. What I have in mind are questions such as "what are we doing and why", "what unites us", and so on. Now we are paying greater attention to these questions. I am not saying that we are revising our culture but we are certainly taking a good look at it, thinking whether it will really continue to bring success in the future.



**Nakiye Boyacigiller, Dean, Faculty
of Management, Sabanci University,
Turkey**

When asked to speak about the topic of institutional responses to the financial crisis, I hesitated. It seemed to me that my situation at Sabanci University was quite unique. However, in further discussions with the session organizers we decided that the unique responses of

our business schools might suggest common responses for the whole academic community. Thus, I will share with you my experience as a dean of a young business school in the Turkish context, as well as some unique aspects of my institution, Sabanci University.

Clearly our responses to the survey on business school responses to the global financial crisis depend on our experience in our own national contexts. They also depend on whether you are a stand-alone business school or incorporated in a larger university, as I am.

The position of the respondent might also influence the answers. For example, I would think that it is highly likely that those of us who are deans would have responded that they perceived greater competition in their context. The disciplines in which we specialize may also have had an effect on our responses, as well as our past experiences.

Some information on my own context of Turkey is in order. We have a research institution at our university that collects data for the IMD Global Competitiveness Report. According to the 2008 report Turkey ranked as the world's 17th and the Europe's sixth largest economy. This year, these numbers may have gone down because the Turkish economy was hit quite badly by the global recession.

We had a very bad financial crisis in 2001, which led to major reforms of the financial sector, so they have not suffered this time round. However, the real economy is hurting and unemployment is around 14%. Still, generally speaking, we see a dynamic economy coupled with a large population. The prognosis is good for Turkey to continue to be a top 20 vibrant economy.

However, when you look at measures of competitiveness, the situation changes quite a bit. While ranked at 20 in terms of GNP, we only rank 63rd in terms of competitiveness. This means that a lot of improvement is needed and business schools should contribute to that.

When you ask about the most problematic factors for doing business in Turkey, the top five responses are all about government bureaucracy, tax regulation, policy instability, access to financing, and tax rates. All these are macro issues. However, note that the next factor identified is an inadequately educated workforce.

The education sector in Turkey has huge needs. There is an incredible gap between the number of places available at universities and the demand for higher education. Every year we have close to two million students taking the central placement examination. That is the only way that you can get into a university. It is a three-hour exam, given one day a year. Of the students who take that exam, 1.5 million cannot be placed.

In Turkey, 50% of the population is under 28 years of age. This tells you that we are facing a huge demographic opportunity. However, this is slowing down and in the next 25 years we are going to become older as a nation. This means that we have to take advantage in the next 25 to 30 years. This demographic bubble will only yield economic dividends if it is an educated populace.

I am an optimist about Turkey's accession to the European Union. I believe that Turkey will eventually become a member of the Union. It may take longer

than most of us would wish, say 10 years or so, but that does not matter. For us, it is the process that counts. Making the reforms necessary to join the EU will make our companies and institutions stronger and help Turkey's development overall. For Turkish companies, joining the EU will mean new collaborators, new sources of funding, and new challenges.

Turkish companies have been experiencing important increases in their professionalism over the last two decades. Up until the 1980s, the Turkish economy was a protected one. With the opening of the economy and increases in foreign direct investment competition has increased significantly. This has created a large demand for management education. Turkish business people look at education as a solution to some of their problems.

In my business school we see great demand from business both for degree programs (Executive MBA) and consulting services by our faculty members. This in turn increases the importance of supporting research, which needs to underpin all our training programs and our consulting work. In addition, within my context it is imperative that my faculty members are cognizant of the Turkish context to be more informed consultants and educators.

In 2003, when I joined Sabanci University, there were 100 universities in Turkey. Today, there are 142. We are in a very competitive, vibrant sector of the economy. Our prime minister wants to build a new university in every major city. However, we know that education is very expensive and universities are hard to staff. It is also difficult to build adequate laboratories. As a result, there are huge differences between the good and not-so-good universities.

Concerning competition among the business schools in my country, I would not agree that it is decreasing from the viewpoint of Sabanci. We are always watching the new entrants and our existing competitors to see what they are doing. Another important question is whether they have the resources to be credible competitors.

Sabanci University is only 10 years old. We have dedicated faculty members who take the mission of the university very seriously. We want to combine education, research, and networking with the business community and other stakeholders. Many Turkish universities are ivory towers but we want to be different and stay connected to what is going on in the country.

At Sabanci University we take our fundamental values very seriously. We are interdisciplinary, student-focused, and participative. We really push the Turkish higher education system to be more innovative and I am very proud of that aspect of the university.

We are a full-range university, providing programs from bachelors level to PhD. We have three faculties: engineering, and natural sciences, arts and social sciences, and the management faculty, which is the smallest. We have a common set of university courses for all first year students that support all programs. We believe that to be competitive in the future, students should be trained in both the hard sciences and the social sciences.

We are a small university without academic departments. This is the most important characteristic of our university. It is a challenge to keep it that way because professors are socialized to think through departmental structures.

Most of our students come from within Turkey but we are working very hard to be international. Many of our students are on scholarships and a very large percentage goes onto graduate school outside Turkey on graduation. Many are also grabbed by the business community on graduation, often by top multinational companies. A good number of our graduates become entrepreneurs and start new ventures, something that we actively encourage. Within a year of graduation, 93% of all of our students are either in graduate school or employed by top companies. This is the best measure of how well we have done as a university.

The Faculty of Management started as a graduate school. However, because of Turkey's demographic reality, the demand for bachelor degree education is enormous and in 2003 we launched the undergraduate program. We now are the second largest program at the university.

Of all Turkish universities, we have the highest number of Sixth and Seventh Framework European Union grants per capita. This is because we have set up an office at the university with the specific mission to help faculty members

with their grant applications. The university founded a company, Inovent, with the mission of commercializing the intellectual property created by faculty at Sabanci and throughout Turkey.

Now, let me turn to the survey that was discussed in the previous sessions. It included questions about competition, how you view institutional longevity, and how you view your financial solvency.

Sabanci University and in particular our business school is in a very competitive market but we are doing well. In terms of competition, we are one of the stars in the Turkish context. Yet it is dynamic market with many newcomers and we have to remain vigilant.

I told you that 1.5 million students are looking for an opportunity to go to university. This may tempt you to set up a branch in Turkey. But it is a challenging environment because this high demand for good higher education is coupled with a limited means to pay.

Our management programs are high value and high cost compared to many of our competitors. This is very challenging in terms of getting students who are willing to pay tuition. Despite this, and the recession, our most recent MBA class had 40 students, which is the highest number that we have ever had. The Executive MBA has also stabilized around 35 participants.

We experienced an interesting and unexpected development in our Executive MBA program this year. Given the recession, we had expected a significant drop in demand for this program that fortunately did not materialize. People took the downturn as an opportunity to invest in their own career development. The recession had made companies more reluctant to pay for the education of their employees but individuals have been more willing to pay their own way.

Still do not be fooled by this young population of 72 million. The number of GMAT takers is extremely low and English language knowledge is still limited. Business education is not an easy business in Turkey.

We did not increase tuition this year, even to keep up with inflation, in support of our students and their families and in realization that these were difficult economic times.

We are fortunate that our founder and sponsor, the Sabanci family and Sabanci Foundation, are absolutely committed to our university and business school. The fact that our university bears their name is a guarantee of that commitment. Yet our name also brings some negatives with it.

In Turkey being named Sabanci is like being named Rockefeller University in an earlier era in the US. It makes it very hard to fund raise outside the Sabanci Foundation. The foundation covers a 30 million TL deficit every year for us but education is expensive and we could do with a lot more. Luckily, our university has faculty members who are very strong in research and we do very well in getting independent project and research grants. Our number-one goal is to build the non-Sabanci side of our endowment.

Our budget went down 12.5 % this year. In the business school, our largest hit was in marketing and travel expenses that had to be trimmed. That was really problematic for me because we need to internationalize.

Despite the recession some excellent news at the university level is our new nano-technology center. This state of the art, 23.5 million facility is being partially financed by Turkey's State Planning Organization and our university (in terms of matching grants). This investment reflects Turkey's recognition that it must increase its investment in research and development. If you are interested in nano-technology, come visit us in a year when this fantastic center will be opened.

We have less than 30 full-time faculty members at our business school but are working to expand. One question I constantly am grappling with is the scale needed in order to have an impact as a business school. We talk about scope and focus but in my mind it is also a question of scale and critical mass.

Last year at CEEMAN's meeting I remember feeling uneasy as we spoke of changes in our competitive context and thinking "which of us will still be around in 10 years?" Hopefully all of us, but I doubt it. What kind of consolidation is going to occur in our industry? I do not know the answer to that but I must admit it puzzles me to hear people say that competition is decreasing. I do not think that is the case at all.

PRME in Response to the Global Crisis

Manuel Escudero, Special Adviser to the United Nations Global Compact; Head, PRME Secretariat; Executive Director, Research Center for the Global Compact, US

The title of my presentation is quite ambitious. The global crisis is something very big and complex whereas PRME is just a small nascent initiative. Nevertheless it is important to note that many CEEMAN schools are founders of PRME because they responded to our initial call for involvement. I see that we share common values and convictions and this makes me feel at home among you.

Before I took my PRME job, I was a professor at a business school and that is another reason that I feel close to you all.

Let me briefly tell you about PRME. It was launched in 2007. The initiative was inspired by the United Nations Global Compact. By now that project has been joined by 7,000 companies and other organizations around the world. They are striving to implement a set of principles in their strategy and daily operations.

These Principles reflect all the progress that the UN has achieved in the past 50 years. We are talking about principles related to human rights, labor standards, climate change, and the fight against corruption. In addition to that, we thought that we should also do something specific in the context of business schools.

The reason is that they have a strategic importance. You are training the business leaders of the future. If we give them the right kind of education, we will enhance corporate and social responsibility.

There is also a parallel initiative called PRI or Principles of Responsible Investment. It works with the financial sector and pursues similar goals. The idea is that if companies do not behave responsibly, the financial sector will not invest in them. We have an international movement that is not just a passing fad. It is here to stay.

That is why we issued this call to the business schools. It is time to see if business education is consistent with the trends of corporate social responsibility that I described. We were happy to see that not only CEEMAN but also AACSB and EFMD responded positively. Other important organizations, such as the Aspen Institute and the European Academy for Business and Society, and the Globally Responsible Leadership Initiative have also given a positive response.

AMBA and the Latin American Council of Business Schools are also signatories to our principles of responsible management education. The International Association of Jesuit Business Schools has signed on. It is an important organization of 187 business schools around the world.

The idea of this initiative is not just for business schools to make statements. The goal is to change basic aspects of what business education means. It should mean developing the capabilities of students to be future generators of sus-



tainable value for business and society at large and work for an inclusive and sustainable global economy. Another principle is about incorporating the value of corporate social responsibility in our curricula. You see that there is link between our principles and those of the Global Compact.

Another principle refers to the learning experiences that we develop. This refers to teaching methods but we also would like to change research paradigms in business schools because that is the foundation for change in the curriculum.

We also think that business schools should be open to society and interact with managers of business corporations in the area of environmental responsibility.

Another goal is to improve the dialogue between business, government, consumers, civil society organizations, and other interest groups.

As you see, these are very ambitious goals. Many of you have accepted them. We realize that business schools are very complex organizations, consisting of very different individuals. Nobody imagines that the goals that we are pursuing will be achieved in a month or a year. The change will be gradual.

The philosophy of PRME is a philosophy of gradual continued improvement over the years. This is very important to emphasize. Schools should not think that our principles are too difficult and refrain from signing on. You have to realize that what we are asking is not excellence in the implementation of these principles from day one. We are asking for commitment to follow this path.

By now, 276 business schools have signed our declaration of Principles of Responsible Management Education. Over the years, we have to increase our membership to 10% of all business schools in the world. This means that our number should reach 1,100. This is a long way to go.

I would like to mention that, at the moment, we have one business school from Belarus, one from Bulgaria, one from Croatia, three from Denmark, two from Finland, one from Georgia, 12 from Germany, one from Hungary, two from Latvia, two from Lithuania, one from Norway, three from Poland, four from Russia, two from Slovenia, five from Turkey, two from Ukraine. This region of the world accounts for 20% of our membership. Really, you are an important part of what is happening in the framework of this initiative.

I want to emphasize that there is only one condition for being a member of PRME. That is the obligation of public disclosure. For this initiative to be credible, it is necessary to report to the public on the progress that is being made.

Therefore, we have a policy of sharing information about progress. This was decided at the Global Forum for Responsible Leadership that was held in New York last December. Every school that is a signatory to PRME should share information on progress with the PRME community every 18 months.

We believe that this is the cornerstone that ensures the credibility of the initiative.

Another thing that we wish to achieve is the creation of a learning community. We think that we can inspire each other. Ensuring credibility and learning as a community are two basic aims that will be realized through sharing information on progress among us.

We believe that corporate social responsibility is a competitive advantage in today's world. That is another reason why our initiative is so important.

We have a growing number of collective initiatives. Any PRME school can acquire global visibility by showing leadership in any kind of collective action. This is the essence of the call that we have issued and many business schools have answered.

As a result, we have different working groups in various areas. One is working in anti-corruption, whereas another one is in climate change. We have groups in executive education, business and peace, and so on.

I would like to mention the one launched by CEEMAN: poverty as a challenge for business education. This is a very important issue indeed. Just think what kind of domain you would like to be a leader in and we will try to help facilitate a collective activity in that area.

Let me now turn to the basic topic of this presentation. Why did we set up PRME?

We did that because corporate social responsibility had already become a hot issue. There was an international movement and a global need for responsible leadership and professionalism. There was a global demand that had to be met by business schools.

Our establishment was demand-driven. When we issued our call we realized that many schools were coming to us not because our principles were a revelation but because they needed a recognition of what they were doing already. That was very important to us. It means that our call was very timely. The sector was mature for this kind of initiative.

However, we realized that the transformation of the curriculum was not a reality for many business schools. Very few MBA programs provided adequate preparation in corporate social responsibility for the graduates to cope with the environment of the company that they would work for.

My own son enrolled at a business school to do an international MBA program. Halfway through the program he told me that the question of corporate social responsibility was not so important. What is important is finance. So he graduated with a degree in finance. That is the reality that we are talking about.

I think that things have improved in the past two years perhaps thanks to PRME. Another explanation is that we are all maturing. But we are by no means at the end of the process.

Corporate social responsibility and sustainable development are not embedded in all the disciplines that are taught. But the important development is that we see multidisciplinary business school centers that are actively working on curriculum change. That is a very nice development.

The year 2008 uncovered to us a new perspective. We are no longer talking about how nice it is to implement changes in the way that we run business education. I am talking about an imperative need if we want to survive. We are in the middle of a heavy storm and we have to get out of it. And we want to emerge from it reinforced. We have to use the crisis as an opportunity. In order to do that we have to change.

The crisis caught us unprepared. It started with an energy crisis, followed by a food crisis. Nobody had given serious thought to this but suddenly everybody realized that the supply of food in the world had diminished.

We saw that an additional 100 million people were in danger of serious undernourishment. It was a food crisis yesterday but perhaps there will be a water crisis tomorrow. The day after tomorrow maybe we will have a humanitarian crisis stemming from climate change.

We live in a world where natural resources are becoming scarce for the level of the population and the economic growth that we have. As a result we need a smarter global management of natural resources.

How many of you are asking the students at your school what climate change is going to do to us? What is the effectiveness of carbon markets? Can they solve the problem? We are soon going to have a new definition of the economy in terms of climate change. Are we preparing our students for that?

You see that I am not talking about something that may or may not happen. I am not talking about something that it is just nice to do. I am talking about an imperative. We must adapt what we teach to the new reality.

We know that the economic crisis has basically been overcome and we are emerging from the recession. Nevertheless there are still very important questions remaining. Are we going to get a new type of financial regulations that will prevent another financial and economic crisis? We do not know. We will see what will happen at the G 20 meeting in a few days. There is a real danger that, now that we are emerging from the recession, we will forget what the problem really was.

I think that this crisis is so severe that corporate social responsibility will no longer be considered as an exercise in public relations. I think we are going to have a new definition of the role of business in society. Nothing less.

I am not saying that we have to forget about profit maximization. That is the moral mandate of business and a basic driving mechanism of a company.

But profit maximization will probably have two limitations.

One will be the sustainability of the company. Financial reporting every quarter may soon be seen as absurd. Quarterly reports have not resulted in profit maximization but in short-term strategies in order to raise a company's value on the stock market. That is part of the problem.

The second limitation is the sustainability of society and the planet itself. There is a lot to do in terms of theoretical clarification here. Responsible companies no longer behave in a way that maximizes short-term profit. They try to make profits but they are also very mindful of the long-term consequences of their actions. This is part of what we have to do in the future as leaders. We have to adopt this new vision that is already there in reality.

Financial professors have traditionally taught their students that the appropriate level of leverage for a company is about 30% whereas 100% is bad. Still, 1,000% leverage has existed and that is precisely the cause of the crisis!

In business schools we teach what is appropriate and how things should be. But in reality our students do not behave like that. Have we taught them the social responsibility that they assume in their decisions as managers? We have not. This is a very important consideration in my opinion.

I am not saying that business schools are responsible for the financial chaos that we have experienced. Not at all. What we provide at a business school is a transformational experience for future managers. But we also have to teach them the social and environmental consequences of their decisions. That is what we have not done.

We are in the middle of a debate about whether business schools should continue with their business as usual. How to teach them the future social and environmental impact of their managerial decisions is an issue that we must consider very carefully. We not only have to change the substance of some disciplines but also the learning method.

We use case studies so that the students understand how they can extract principles out of reality. But do we do the opposite? Do we show them how to create a reality based on principles? We do not. We will need much more experiential learning in the future, combined with the case studies that we use at this moment.

What does experiential learning mean? We know intuitively that we want our students to have a hands-on approach to reality. But to achieve that we need new learning methods.

PRME did a survey of 200 companies that are members of Global Compact. We asked them if they were satisfied with the type of business education that business school students get. Less than 8% agreed.

This means that those companies that have chosen the path of sustainability and responsibility do not think that our students are properly educated. We are not giving them the right concepts and skills. This summarizes the challenge that we have in front of us. I am talking about companies like Shell and Coca Cola. They want a different type of education. This is the main problem that we have. We have the opportunity to update MBA education. Business can help solve problems like sustainability and inequality but only if it is infused with a broader, society-focused international leadership. I think that business schools can produce this type of leader but only if we change. That is precisely what PRME is trying to achieve. That is what you are also trying to achieve.

However, let us not hurry. Let us do things properly. That involves a gradual approach. As I said before, a business school is a very complex reality. You will not change things by decree. Now I am referring to you as Deans and Directors of business schools. It is very important to form an alliance with your faculty. We need a top-down approach but also a bottom-up approach at the same time. Only in that way will we really manage the type of change that I am talking about. We need a top-down approach because it is the Dean who must set the tone in a business school. He or she must send the right message that corporate social responsibility is a new way of thinking. The Dean should create a system of incentives in order to make it happen. He or

she should create a control system to make sure things are progressing in the right direction. But that is not enough. If you do not have a substantial part of you faculty who are answering your call, nothing will happen.

We need an interdisciplinary group of those who are committed to these ideas. Little by little, they can change their syllabi, produce new cases, and irradiate this new approach into the rest of the faculty. That is what will make the change possible. The Dean gives the green light. But it is the faculty that will make the change. It is very important to understand that. The goal is to change all disciplines that we teach and the way that we teach them. We need to change the content of finance and accounting and also of operations and marketing. This is the scope. And that is not all.

In the future our students will have to be skilled not only in business negotiations but also in carrying out a dialogue with their stakeholders. Are we teaching this at the moment? Are we teaching them the skill of knowing the social environment of the company so that it can maximize its reputation and create value? This is the scope of the change.

Closing Remarks



Jim Ellert, Former Dean of Faculty, IMD Lausanne, Switzerland

I would like to share with you some insights that I took away from today's session.

What resonated for me from the CEE-MAN survey results was that we think we will survive as business schools. This is good. We do not expect a strong

decline for degree programs. Executive education might be a different story, at least in the short term.

Contrary to the findings from the survey, most of our panelists and discussants argued that there is increasing, not decreasing, competition for quality participants in Central and Eastern Europe and Russia. This competition is becoming more international rather than local.

Business schools do not feel particularly responsible for the current crisis. We do feel, however, a strong need and desire for change. All of our panelists spoke about efforts to accelerate innovation in order to prevent program enrollment declines.

We heard comments earlier in the morning that we could focus more on learning than earning and that we could do more for society in the design and execution of our programs. Those sentiments were reinforced again in the final session that we had this afternoon with Dr Escudero.

Our next event is the opening ceremony for the CEEMAN Annual Conference. You are all kindly invited to attend this session.

17th CEEMAN Annual Conference



Local Responses to
Global Crisis

Welcome Address



Danica Purg, President of CEEMAN, Slovenia

Ladies and gentlemen,

Dear Mr Vilks, advisor to the prime-minister of the Republic of Latvia,

Dear hosts, leaders of RISEBA,

Dear board members,

Dear colleagues and friends,

Good evening and welcome to the 17th annual conference of CEEMAN. As I listened to this talented girl who sang for us, I thought that Latvia's young generation would ensure a bright future for this country.

We expected Mr Usakovs, mayor of Riga, to greet the participants. Unfortunately, he is busy and cannot honor us with his presence. I should have told him that our annual conference in St Petersburg was opened by Mr Putin, who was deputy mayor of that city at that time, in 1995. You see how CEEMAN promoted him to the post of Russian president and prime minister.

At this conference, we are 120 representatives of management schools and other institutions from 30 countries. I hope that we are going to learn together, enjoy each other's company, and transfer some of the insights that we gain here to our respective institutions.

We have some prominent speakers from Latvia who will describe to us the political and economic reality of this country. Many other speakers from different countries will share with us their views of the crisis and the various responses that it has received. We are particularly interested in the answers that management education can and must provide.

Nancy Adler, one of the leading professors of organizational culture in the world, is well known for her critical views of values in management education. She will share with us her ideas on what leadership action should mean in today's world. She will talk to us about management education's responses to the challenges and opportunities of the global crisis.

We are happy to have with us Manuel Escudero, special advisor to the United Nations' Global Compact and Executive Director of PRME - Principles of Responsible Management Education. Today, during our Deans' meeting, he talked about the experiences of PRME and its goals as a response to the global crisis and beyond. It is good to know and to remember that 25 CEEMAN members were among the first business schools in the world that adopted PRME in their curriculum.

On the initiative of Al Rosenbloom and Milenko Gudić, CEEMAN embarked on a large research project on the way that business schools around the world see and respond to the crisis. It was presented during the Deans' and Directors' Meeting this morning and we are going to hear a summary of our discussion tomorrow morning for the benefit of those who were not present.

We are also happy with the response of business, whose representatives from Latvia, Russia, Slovenia, and Ukraine will be sharing their views of the crisis.

We are glad to have with us our dear member Ichak Adizes who will address us tomorrow evening.

In 2009, nine new schools joined CEEMAN, including Exeter University from the UK and Darden Business School from the US. Coca Cola Italy and ACMS Albania have also joined up. I am sure they will enjoy being a part of the great CEEMAN family. You will hear more about this and the other CEEMAN activities on Saturday morning, followed by the information session on CEEMAN International Quality Accreditation.

Tomorrow afternoon, we are going to have a sight-seeing program. We will be introduced to Riga, the world capital of Art Nouveau architecture. Join us for all these events.

By now, CEEMAN has 170 institutional members from 42 countries. Among them are 10 companies that take management education and its values seriously. I am very glad to welcome four new board members. Three of them represent companies - Microsoft, Coca Cola, and ACMS, and Irina Sennikova from RISEBA is also one of the new board members.

A group of pioneers in management education in Central and Eastern Europe established CEEMAN in 1993 with the aim of accelerating management education in our region and set quality standards.

As part of our activities we set up a very successful International Management Teachers Academy (IMTA) for young faculty, attended by 347 people so far in the past 10 years.

We have also run seminars on how to reach operational excellence. We have organized 17 annual conferences, published *CEEMAN News* regularly as well as conference proceedings and other books. The latest of these is called *CEEMAN Dialogues*. It was published in partnership with Emerald.

It is also interesting to know that CEEMAN is building strong relationships with other international associations. We are partners with 15 international organizations. We plan to embark on a major project, supported by the Higher Education Support Program (HESP), a program of the Open Society Institute and financed by George Soros. We are going to develop teaching materials, case studies, research, and publishing.

We are also launching a global youth competition in association with the Third Millennium Knowledge company. It is called "Challenge:Future". Our aim is to promote innovation and collaboration by connecting youth creativity to real business world challenges. Two hundred people have already applied to compete since the launch yesterday. This means that the event is going to be something really special.

CEEMAN should build its future on the unique value platform that supports the goals and development of the new profile of leaders in business and other areas who should demonstrate ethical behavior, a better understanding of business in society, and higher responsibility toward the achievement of sustainable development in a better future society.

CEEMAN will continue its work in the area of responsible management education, on poverty reduction, and management education. We will also launch new activities and share research results at different international conferences, including those organized in cooperation with Global Compact and other organizations.

During this conference, we will talk about local responses to the global crisis. What does this mean for managers and leaders? Is the solution in further cost-cutting? We have tried downsizing, reengineering, offshoring, outsourcing, and finding new markets for old products.

Personally, I do not believe that we will find the right solution there. We are in a period when cost-cutting threatens to destroy the foundation of our business: the investment that we have made so far.

I agree with Richard Florida, the author of the famous book *The Rise of the Creative Class*. He says that talent will be the ultimate economic resource. Therefore, I am concerned about companies that stop developing talents

and reduce or abolish their investments in education and management development.

Realistically speaking, what competitive advantage will we have in Europe when we destroy our position in education and research? Managers and leaders need a new mindset. The time when it was just enough to develop a technically perfect product or a service is over. We are shifting toward what is called a conceptual economy.

It is necessary to invest into "meaning-making" (that is, design, branding, and marketing) in order to add a non-functional value to products and services. We have to sell meaning (for example iPod) not just a function (like every other MP3 player). That implies that in addition to technological skills we need other skills in companies related to imagination, a feeling for trends, innovative drive, and so forth.

Here lies a great opportunity for companies that want to be successful. And here lies the opportunity for management schools to integrate these ideas and needs in their programs.

It is extremely important that managers and leaders succeed to break through the walls of their companies and develop maximum sensitivity for the needs and wishes of their actual or potential customers and society at large. And something has to be done to restore the trust between customers and business leaders.

Although it is not the case in every sector, relationships are damaged. All business leaders feel the consequences of the growing distrust of the public. The image of the company and business success depend largely on the behavior of leaders and managers. And last but not least, we are talking here about ethical behavior and showing responsibility for society at large.

In recent research in the US, more than 75% of people say that they refuse to buy products or services from companies that they distrust. So it is not only necessary to do things better than others but also to *be* better.

For a long time we have been convinced that this kind of behavior would pay off in the future. Now it is becoming clear that it is paying off today. And here we are to discuss those issues and set the direction for our future actions in this respect.

I wish you all a very good conference with many interesting meetings and a wonderful stay in Riga.

**Boriss Kurovs, President, RISEBA,
Latvia**

Ladies and gentlemen,

Welcome to our country, our city, and our school for the second time in CEE-MAN's history. Many of us remember the conference that took place in Riga 12 years ago. A lot of things have happened during this time. We are now dealing with a crisis but we have also had some opportunities. Unfortunately, our country is in a very deep recession. Nevertheless, our school has managed to start building a new campus. As you can see in the pictures, it is going to be very beautiful.

I wish you a very interesting conference and I welcome you to Latvia once again.



Political-economic realities in the Baltic Region



Andris Vilks, Chief Economist, SEB Bank, advisor to the Prime Minister of Latvia

Ladies and gentlemen, dear conference guests.

I will try to use the short time that I have to explain what is going on in the Baltics and particularly in Latvia. At first, you will hear some shocking things but later you will see that I am not all that pessimistic.

It appears that, after the difficulties that we experienced, we have found some solutions and are moving in the right direction.

We are a small country with a small economy and a small gross domestic product. However, our annual growth rate in recent years was astonishing, being in the neighborhood of 8%. Because of that, we used to be called a Baltic tiger. But at the moment we are a hibernating bear. We had attracted a lot of investment: 30 billion. This is partly due to our excellent geographic location, which has benefited us in previous times. We hope we will continue to benefit from it in the future as well. Of course, it depends on us how this potential will be used. Right now, we are not using it well.

Until 2007, the Baltic countries had a GDP growth rate of about 10%. Unfortunately, this was followed by a very dramatic drop. Estonia was the first one to be affected by the crisis. Latvia was next. Lithuania managed to delay the impact to some extent but then it was also hard hit.

The fall was tremendous. We are now leading the world's rankings in terms of the severity of the economic recession that we are suffering and Latvia may be the absolute champion in that respect. How did it happen?

We suffered a double shock. We had domestic troubles because of the bad structural exposure of our economy. We also had problems in our education system, in the administration, and in other important domains. In addition, we felt the impact of the shock that came from the crash of Wall Street.

Not only did our GDP fall precipitously but our credit rating collapsed too. Tax revenues diminished by 30%. Businesses disappeared or went into the gray economy. This is a great challenge to our state. As a result of the crisis, public expenditure cuts reached 15%. Discussions about this are going on in parliament every day and we are continuing to look for ways to make further cuts.

Unemployment has reached 17%. Companies prefer to lay people off than cut salaries. Wages are down 20%. We expect a further decrease this year and the next. Real estate prices have fallen 70% which, again, makes us a world champion.

To combat the recession, we have increased excise taxes and property taxes. We have also introduced a capital gain tax. In this way we are restructuring our economy. However, parliamentary elections are approaching and we can expect a political backlash.

At the moment, there is some economic stabilization in all Baltic States. We have bottomed out. However, non-performing bank loans are increasing and could reach 20% at the end of this year. Our fall this year was faster than we expected and it had a broader impact than we imagined. But this also means that we have more room for recovery. We also have a large European Union accession fund. If external demand picks up, that will also help us get back on track. Unfortunately, domestic demand will be low for several years because it will not be easy to restore spending confidence.

After gaining our independence we lost more than half of our economy. We absorbed the hardest shock of all East European countries. Then, we had a banking crisis in 1995 when banks collapsed and people lost their deposits. Following those events, our banks were bought by Scandinavian ones. Then we became an EU member. There was a lot of optimism in the market and a lot of money was available. Debt levels were low and the general economic situation looked excellent. Finally, we entered a period of a severe crisis.

I think that we still have a potential to grow at about 5% a year. The crisis that we had in the early 1990s was much more severe. Today we have adequate institutions and other instruments to cope with economic adversity. We are under the umbrella of the EU and that makes a big difference. The uncertainty is not as huge as it was in the early 1990s.

The worst-hit sectors of the economy are retail trade, the tourism business, construction, and banking. Agriculture has suffered the least. It is a small sector and it has not been affected much. The only sector that is doing relatively well is transit through the ports. Last year we had a record-high turnover. This year, the situation is likely to remain the same. These are goods that are coming from Russia and other CIS countries. This means that Latvia can still benefit from its location and the investments that were made in previous decades in ports and railroads. This sector will remain very important.

Before 2003-2004, bank-lending was a small operation. There are two reasons for that. Banks were very cautious and entrepreneurs were not looking for large loans. After we joined the EU, this changed dramatically.

Estonia was the first Baltic country to experience a strong demand for bank loans followed by Latvia. This trend reached Lithuania a couple of years later. The numbers were staggering. Annual credit growth was 30 to 40%. Mortgage loans in Latvia grew by 70% to 90% for three or four years in a row. Business loans grew by 40% or 50%.

One of the reasons for that was the free market that we had. Banks started asking for tougher regulations as early as 2006. It was the politicians that refused to do that, using populist slogans. Despite the severity of the crisis our banks have not collapsed like those in other countries. They were quite efficient and have managed to hold on.

One of the main problems that we have is our huge current account deficit. In 2007 it reached 28% of GDP. That was a staggering figure. At present we, and the other Baltic countries, have managed to bring this figure down to less than 10%. We have achieved this by cutting back on imports. We are importing 40% less than we did. Exports are doing relatively well. They have fallen by about 25%. This situation is similar to what is happening in neighboring countries, although they have devaluated their currencies and we have not.

We will continue to import a great deal of the goods that we need. For one thing, we do not have any raw materials. We import them all from neighboring countries. The manufacturing potential in the Baltics is also weak compared to that of other Central and Eastern European countries. For example, our manufacturing sector accounts for 10% of our GDP. In this respect, we are similar to Cyprus and Malta and very different from the Czech Republic or Slovakia.

The good news for us is that investors are not leaving the country. They are postponing the launching of new projects but they have not given up on us. The two coming months are crucial for all Baltic states. On the other hand, we could attract investors. But if we do not do things right we could jeopardize our very fragile recovery.

We have a good chance of success but we are facing many challenges as well. It all depends on how politicians will behave. Although our next parliamentary elections are due in October next year, the campaign has already started.

Inflation is another reason why our economy has moved in the wrong direction. In 2007 inflation was record-high - almost 16%. At present we are on the brink of deflation. Prices are going down each month. The largest falls are in construction, production, and exports. The deflation period will probably last for a year. However, it is hard to make specific predictions because we are very sensitive to the impact of economic developments in the EU and Russia.

++Although some economic indicators are improving, the general mood is worsening month by month. The situation has stabilized in business but not in the public sector. It is going through some serious restructuring and quite a few people are going to lose their jobs this year and the next. The situation is aggravated by the fact that it is very difficult for those who used to have a job in state administration to find a job in the private sector.

To make matters worse, many people are going to lose their unemployment benefits this month and the next. However, we have a program with the EU and the World Bank and we are trying to help those people with so-called minimum survival grants that cover basic living costs. There is also some money for education and vocational training. The program is short-term but it is likely that the EU will provide another similar package next year.

The EU is trying hard to minimize political risks because they could reverberate throughout the region, including the Scandinavian countries. It is a very sensitive issue that requires a lot of attention.

Unfortunately, we did not accumulate a budget surplus in the boom years. The politicians were very populist and spent all the money that there was at the end of the year. Of the three Baltic countries only Estonia has amassed some reserves but even that country has a severe budget deficit at the moment.

This is one of the reasons why we have to make such dramatic cuts in public spending. Teachers, for example, are going to lose 40% of their salaries and that is definitely going to hurt. We also have to reduce the number of hospitals by half. We simply have no other option. We have agreements with the International Monetary Fund and the EU and we have agreed to restructure our public sector, including education and health care. They are not as efficient as we would like them to be.

What is now going on in the Baltics, especially in Latvia, is an experiment. Because people have suffered before, they will understand if you explain properly what is happening. It is a matter of good communication. People can put up with hardship for a year or two but they need to see a clear goal that makes sense to them.

It is very important for us to manage our fiscal balance. In order to do that, we need to introduce the euro as soon as possible. We were not able to do that earlier because of our high inflation. The problem now is that our fiscal deficit is too high. But as of 2012 we are likely to enter a period of fiscal balance and it would be possible for us to adopt the euro. Estonia is in a better situation in that respect and could introduce the European currency as early as in 2011.

It is all a matter of how this will be explained to the European Central Bank. The question also has a political dimension: will it be possible to introduce the euro in one Baltic country but not in the others?

Investors want to see all Baltic countries in the safe euro zone as soon as possible. They have made serious commitments in our region and they cannot get out. They are going to continue to support the Baltics. We have some relative strengths compared to other countries that have been in a similar situation before. We are not Argentina or Indonesia.

However, we have given the European Commission a lot of headaches and have educated it in a sense. We have learned quite a lot but so have they. It is good that such strong emphasis is put on Central and Eastern Europe. The economically developed countries have a good credit rating and can easily borrow money but our situation is totally different.

In conclusion, I can say that the sharpest downturn is now behind us. Business is improving but the public sector is still sinking and this will generate a further fall of GDP in nominal terms.

The Baltic countries are very stubborn in their resolve to keep their currency pegged to the euro and refuse to devalue them. There is an agreement

about that between Latvia and its creditors. This explains why we have to make massive public cuts in the coming years. Many administrative functions will also have to be abolished. We have approximately 1,100 functions. I do not know how many of these we can keep but many definitely have to go.

Improving productivity is another issue as is the leveraging of the private sector. As I said, we had a tremendously high level of loans and we have to tackle that problem now. Getting rid of unnecessary procedures is also very important.

It is good that the economic situation is improving worldwide but Central and Eastern Europe is still in a very precarious situation. The Baltics have suffered a lot and so has Ukraine. Romania and Bulgaria will also have to deal with similar problems in all likelihood. Fortunately our people are ready to accept the challenge and fight.

We have hope for the future as opposed to the feeling of gloom that prevailed in the first quarter. At that time we did not even know what would happen to our currency. At least we can see where the exit light is. The process is going to be painful but we know that there is a way out.

Question from the audience

This was a fascinating presentation of the situation in Latvia and the Baltics. You presented some shocking figures but, conspicuously, did not dwell much on the issue of devaluation. Would it not be better if Latvia devalued its currency by, say, 7% or 8%? That would be a wage cut sneaking in through the back door that many people would not even notice.

Would that not ameliorate the situation to some extent? Why this almost religious belief in the peg to the euro? You mentioned the word "stubborn" in that respect. It is a negative word. I would prefer "steadfast" but your choice of terms sounds like an admission. I would like to know what is behind all this.

Andris Vilks

This is a very sensitive question in Latvia. We remember how we switched from the Soviet ruble to a Latvian ruble in the early 1990s and then adopted the lat. The only institution that has always enjoyed a good level of confidence is the Central Bank.

There is also consensus among experts that it is very risky to start negotiations about the devaluation of the lat. We are highly dependent on imports. Our export sector is very weak. If the Central Bank as much as mentioned a word about devaluation, there would be massive panic. The result would be a run on bank deposits.

People remember that they lost quite a lot of money during the bank crisis of the 1990s. The consequences of devaluation would be huge. Anyway, the peg is not our main problem. The emphasis should be on improved productivity. The way to achieve that is a painful restructuring of the economy by means of wage cuts and other adjustments.

Another reason not to adopt devaluation is that it would only be a short-term solution. Six months later, we would be in the same situation. At the moment, we are actually better off than countries that have devalued their currencies.

Finally, devaluation would not help much because most of our loans and our foreign debt are denominated in euros. Dismantling the peg would not improve our situation at all.

Corporate Views on the Global Crisis: Threats and Opportunities



**Virginijus Kundrotas, President of BMDA
– Baltic Management Development
Association, Lithuania**

It is a pleasure to see you all here, especially after the great dinner that we had last night. I was a little worried for today when I saw the quantities of food and drink yesterday but now I am reassured.

Most of you were here yesterday and listened to the sad description of reality in Latvia and the Baltics given by the advisor to the Latvian prime minister. We cannot argue with the statistics that reflect past events. However, when it comes to forecasts of the future made by financial analysts I am skeptical. Yesterday we were told what *might* happen. I prefer to hear what *must* happen. There is an important distinction here and what makes the difference are the people who are sitting in this room and those outside it.

How we see the crisis depends on our outlook. It is possible to perceive it in negative terms but one can also spot an opportunity in it. We are looking forward to hearing such stories today.

Welcome to reality. We have an excellent panel of speakers from different companies in diverse sectors. We have Katrine Judovica, chairperson of the Board of Narvesen Baltija Ltd, Latvia; Janez Škrabec, General Director of Riko, Slovenia; George Logush, Vice President of Kraft Foods, Ukraine; Gleb Ibragimov, Vice President of Diana Holding, Russia, and Matej Potokar, Chief Executive Officer of Microsoft, Slovenia.

We are going to hear short presentations of how they see the crisis and how they are coping with it. Do they think it is important to respond locally? What actions are they taking in their companies and outside of them? Are they working well or not?

Another important question is what skills businesses need today. What kind of support do they expect from business schools? Do schools meet those expectations? These are the questions that we would like to have answered during this panel.

Katrine Judovica, Chairperson of the Board, Narvesen Baltija Ltd, Latvia

I am going to give you a brief introduction to my company and the type of industry that we are in. It is basically a retail, kiosk, and convenience store industry. Narvesen Baltija is part of a large company consisting of Rautakirja Oyj, based in Finland, and Norway's Reitan. They are leading retailers in the Nordic countries.

My task today is to focus on our Baltic experience and explain how we deal with the current recession. We have about 300 outlets in Latvia totaling about 1,000 kiosks and convenience stores in the Baltics. In this region the retail industry registered unbelievable growth in the past four of five years, exceeding 20% a year. This was suddenly followed by a 40% drop. The main challenge is that as prices are falling, costs are still rising.

We are lucky to have big parents with deep pockets behind us. Some of the challenges that the retail industry is dealing with involve cash flow problems and declining profits. Our suppliers are also under pressure as they are dealing with declining volumes. As a result everybody is looking to reduce costs.

One of our main tasks is to maintain positive cash flows in operations. To do that, we need action on both the cost side and the income side. My opinion is that cost-cutting is important and the crisis is forcing us to do a very useful exercise in that. We are removing all the flab that we had accumulated in the good times.

But there are limits to cost-cutting. If you focus on nothing but that you will not be able to do good business in the long term. Some of the things that we sell are not first-necessity items. We sell newspapers, tobacco, phone cards, lottery tickets, drinks, and snacks. These are things that you can live without. Therefore the main issue for us is to figure out how to maintain customer loyalty. Not just the retail sector but also all other industries suddenly realized that customers are extremely important. Without them your business simply cannot survive. Weaker companies that cannot adapt to the new situation will die. We have to be strong enough not only to survive but also to lead the change. For that reason, our main focus is on customer-orientation. We are trying to provide extra value and an exciting experience. Continuous concept development and innovation are essential in our business at the moment.

One of the business concepts that used to be very successful was the franchised company. With this arrangement, you can control the cost level, but the most important advantage is the entrepreneurial spirit that you can capitalize on. Each franchisee is eager and motivated to keep customer loyalty and enhance the long-term growth of the business. This is a good time for us to realize what kind of people we need in order to weather the storm and be successful in the future and make the organization as flat as possible. We also have to get everybody focused on our customers. This means not only good service for end customers but also an understanding of the concept of internal customers. This refers to what each person can do in order to give his best performance even if this does not seem terribly important at first glance. It is little things that add up and make a big difference in our business. The Baltic operations of our company can be used as a very good platform for international expansion. Our parents' ambitions are to grow internationally. They are keeping an eye on Central and Eastern European countries.

Our Finnish parent has already initiated development activities in Russia and Romania and there are plans concerning Ukraine. I am proud to tell you that



the Baltic experience is very important for the success of the new ventures in those countries.

One of the skills that we have here is language and cultural competence and an understanding of how business is done in Central and Eastern Europe. To this I would add the flexibility of Baltic people. We survived the Soviet period and had an economic boom. Now we are coping with a crisis but once it is over, we will be able to handle any difficult task that our parents expect us to do.



Janez Škrabec, General Director, Riko, Slovenia

Thank you for your invitation to this conference. I have never before spoken before so many academics and other distinguished people. I am a successful entrepreneur thanks to some of the people who are in this audience.

My country, Slovenia, is in a big crisis. We are probably the only country that has experienced a two-digit drop in GDP beside the Baltics. There are many reasons why this is so, some of which will be discussed later during this conference. Anyway, this is not a good environment for entrepreneurs.

However, crises are nothing new. I was a student at the School of Economics of Ljubljana University in the 1980s when Slovenia was part of a socialist state. My favorite subject was political economy. We were told that boom periods are followed by recessions and this cycle is inevitable. I based my whole entrepreneurial strategy on this knowledge.

I am very much impressed with Mori Seiki of Japan. They are one of the world's largest machine tool producers. I visited the company last year. It was a boom period when they were supplying much of the automotive industry with their products.

This year I saw them again and asked them what results they had compared to last year. They told me that they had produced 8,000 machines in 2008 and had a turnover of 2 billion. They also had 3,000 employees. This year they are going to produce 2,000 machines and have a turnover of 2.5 billion. Interestingly, they still have 3,000 employees.

I asked what those people were doing. I was told that they were in training, taking language lessons and seminars on how to achieve innovation and develop the company.

For me this was an eye-opener. You do not need to be an academic to know the basic truth that fat times will be followed by lean times. As the Bible says, seven good years will alternate with seven bad years. During the seven good years you have to prepare for the following bad years.

Unfortunately, many Slovene companies did not understand this philosophy. They acquired smaller firms on credit and now they are oversized and have overcapacity. They are blaming the banks for their predicament.

However, I fully understand the banks because they do not have limitless possibilities to give credit. It is excessive optimism in the good years that brought on the bad ones. I am not talking about the financial crisis but about what is happening in the real sector. We have too much of everything. At this moment it is only possible to sell 50 million cars in the whole world. However, the total production capacity of the world is 90 million.

This year Slovenia was visited by Nobel Prize winner in economics Paul Krugman. We asked him what to do so that old technology becomes obsolete faster and there is greater demand for new technology. He said that we

should invest in green technology, renewable energy, and ecology.

I learned something interesting from Professor de Vries at the IEDC- Bled School of Management. He said that the most successful people and companies are those that are most worried. A Japanese professor once made a similar statement. He said that the most successful companies are paranoiac. I find this really reassuring because there was a time when I worried so much about everything that I considered taking therapy. Now I understand that worrying is not all that bad.

When I started building my company 20 years ago I wanted it to be very flat. Once, somebody said that he had met my secretary. I wondered who that might be. I was not sure about my own role in the office. How could he know that she was my secretary?

I think that flexibility works much better than a rigid structure. My definition of my business is very broad and abstract. We are in the global project management business. We used to be in industrial engineering which means delivering technological solutions to the automotive industry. Then, we moved into logistics. Now we are much more in the energy sector. For example, we are building a hydroelectric power plant in the Republic of Macedonia. I think that the main business of tomorrow will be ecological engineering.

Now that Slovenia is in the European Union it has obtained big funds for ecological projects such as waste water treatment. We will be able to use our experience also in the other republics of former Yugoslavia.

Many people found yesterday's presentation by Mr Vilks on the economic situation of Latvia depressing. I think that the most optimistic thing about it was the fact that despite his being close to Latvia's politicians, he did not say that they would pull the country out of its predicament. He said that the country has good people. They are hard-working and well educated. That is what Latvia can count on. I would also say that I do not trust the Slovene politicians to deal with the crisis. It is the Slovene people that will do that.

I do not know of any country that does not consider itself in a key strategic position. Everybody thinks that his country is at a very important crossroads. I did not know that Latvians had the same impression but I heard statements to that effect yesterday. In Slovenia we also like to say that we have an important strategic position. That is good in a way because it is the only location that we have and we must make the best use of it. Only this approach will get us out of the recession.

**George Logush, Vice President,
Kraft Foods, Ukraine**

This is the first time in my life that I have addressed a group of academics in the field of management. I am really glad to be here with you because I feel a lot of commonalities with you and an alienation from the processes that are going on in North America.

The crisis has hit us in a unique way and we have been developing unique responses. We are in a rapidly evolving environment. I think that this empiricism can probably make an important contribution to the development of management as a science. I will return to this a little later in my presentation.

Let me say a few words about Kraft and our experience because it has a lot of implications for business education.

We manage a rather large territory in Ukraine. It did not happen overnight. It was a long process. We followed a slightly different model compared to



what other international companies employ in terms of territorial responsibility. We did that because we were able to demonstrate competence and performance step by step. In that way we were capable of growing our business territorially.

Ukraine is a very exciting place to do business. It is a very challenging laboratory. Until recently it was one of the fastest-growing economies. It is also a society that is developing with a considerable depth because by now there is a large middle class. That is very important for marketing but also for political reasons.

Unfortunately, there is a deficit of oil and gas, as you all know. After being Europe's 12th largest economy in 1989 Ukraine sank deeply in a recession that wiped out 70% of its GDP. Then it managed to bounce back and achieve good economic growth.

State interference has decreased significantly and the bureaucratic mechanism has shrunk. Since 2004 there has been more responsiveness to business on the part of the government. We are in a position where we can enter into a dialogue with the government. There are several institutions that listen to business and are quite responsive at times. Of course, Ukraine has been reorienting itself since 1989. Membership in the World Trade Organization has been very helpful as well as the improved relations with the European Union.

We started our business in Ukraine in 1995. At that time it was not possible to call a local head hunter and say, "Give me a marketing director". These people just did not exist back then. We had to develop our own tradition. We picked people who were able and had a strong personality and showed a lot of potential for growth. We did not have functional silos but set up a very flat organization. Very often I was a mediator rather than a managing director of the business.

If you are developing an international business in a particular country and you bring in expatriates as directors of finance or marketing you will have foreign bosses and local people who pass papers around. This is a recipe for disaster that international companies often have a hard time moving away from. We were able to bypass that stage.

In marketing, we benefited from our international experience. However, in Kraft you have a local brand that you manage by yourself. We began to operate in a traditional environment that has some considerable differences from North America and Western Europe where a lot of consolidation has occurred. In Ukraine we had to learn how to deal with traditional trade.

Sales is often one of those disciplines that are neglected and forgotten in management education despite the fact that it is the driver of business. This is where your customers are and this is where you make contact with customers and learn from them. We were so successful in that area that we became a model for Latin America. In the past five years Kraft in Latin America has adopted our sales model. We are also working very closely with China and extending this model there.

Initially we had our own MBA program. We hired people that had not even graduated from a university. We learned together how to manage a business for which there were no recipes. We were in an economy that was going through a transformation and nobody knew exactly how that was done.

It was only in 1999 that we were able to recruit people that had some experience somewhere else. We took people with brain power and focused very much on training and development. Today we have 17 MBAs who come either from the International Management Development Institute or Kyiv Mohyla Business School, 20 masters, seven candidates of science, and two doctors. That gives us the analytical ability, flexibility, and responsiveness that we need to deal with some very complicated issues.

The benefit of being a large corporation is that you can send people to more developed markets so that they learn. We have used that advantage quite extensively. As a result, some of our employees took jobs at our head office in Vienna, which supervises Central and Eastern Europe, the Middle East, and Africa. Two of our people are now vice presidents there. One is vice president of beverages, which includes coffee. As you know, Kraft is a strong coffee company.

The other person is responsible for purchasing and procurement and has a budget close to \$4 billion. The training environment that we have has produced excellent people who can serve the corporation at much higher levels.

All of this has given us the opportunity to extend our business. Some neighboring countries seem to lag a little bit behind Ukraine in terms of the transformations that are going on there. In that case, it is easy to transplant people from the Ukrainian environment into that environment. We went through several waves of expansion, initially into Eastern Europe and more recently into Central Asia.

We have grown our company from \$4 million in revenues a year to \$400 million. If you factor in the devaluations that we have had, the growth in local currency is much stronger.

We have moved from one country to 12. We started out with one category, chocolate confectionary, and went on to add more. In 1998-1999 we had a crisis but viewed it as an opportunity. Our competitors were weak and we were capable of grabbing market share from them because we were stronger.

In 1998 we launched into coffee, competing with an international company that had 66% market share. There is no management book or business case readily available on how to launch a new category in a market where somebody has a dominant share. We had to develop that expertise on our own. We found a way to do it and today we are a market leader in coffee.

We also went into the potato chips business and had to learn how to grow potatoes as a raw material. Some of our doctors and agronomists were capable of helping us do that.

We rolled out our model in other countries in Eastern Europe and became number one in those markets as well. We are the fastest-growing business in the whole Kraft world, which includes 120 subsidiaries. Our growth is continuing this year. The unofficial figure is 30% compared to last year. The kind of model that we are using obviously gives payoffs.

We have experienced a very difficult transition from a socialist economy to a capitalist society. There is no going back. However, each country followed its own path to capitalism and that was quite exciting. The most important issue for us was human resource management. As business educators, you develop people for us and that is where we have our interplay.

Moving on to the crisis and our response to it, I think it was exaggerated and sensationalized in the press. As soon as it hit, everybody started talking about 1929. International companies were scared and overreacted in many cases. Local companies were more phlegmatic because they did not remember the 1929 crisis. Many of them had experienced and survived the crisis in 1998-1999.

However, the crisis was especially severe in Ukraine, involving a serious devaluation of the currency and high inflation. We were working in a very difficult environment. Among the management issues that we faced was a head office, which not everybody has. Imagine a head office in Chicago that is telling you how to handle the crisis. On occasion, we spent more time dealing with the head office than with our local market.

Nevertheless, we encountered enormous opportunities. There are some so-called common mistakes that international companies make. Some of our competitors thought that this crisis was going to be a replay of 1998-1999. They started to require prepayment from their customers. They did that at a time when customers had reduced liquidity. They could not prepay. That hit the sales of our competitors immediately.

The second mistake that they did was that they stopped advertising. That is the first cost that they cut. This is fantastic because the collapse of the advertising markets drives down the rates. This means that you can buy advertising a lot more cheaply.

Some of our competitors raised their prices sharply right after the devaluation. That was also a mistake. We had learned from 1998-1999 and raised our prices very gradually. As we did that, we pulled market share away from our competitors.

Another mistake was that they switched into value products, just like in 1998-

1999. We did not want to do that. We thought that this was going to be a different crisis. We stuck with our premium products. This time customers had their brand loyalties established and continued to buy the products they knew in the price segments that were familiar to them. They preferred to do that rather than shift to other products.

Then, some competitors stopped new product development. That was a mistake because a crisis is a time when customers expect good news. You have to entice them back to you. Therefore, we continued developing new products.

Of course, many started to divest businesses, which was a chance for us to acquire them.

We see a lot of growth potential once the crisis is over. And then, as some speakers have said, we will have to prepare for the next crisis. We do not know when it will happen but it will be unlike the 1998-1999 crisis or the current one. That is going to be a challenge for us of course.

How do we fit in with business schools? There is a whole list of things that we can do together. We have always sent people to MBA programs in the country and outside. Those who go abroad go to Western Europe or North America. But the question now is, since the action is primarily in China and India, should we be learning from those experiences as well? They can probably provide insights into how we could be more successful.

Finally, as a general perspective on management as a science, we know that management is based on observation and generalization. Then specific applications are made. It is a human science. Humans change and so do institutions. This means that management has to be flexible. How often do we find articles in *Harvard Business Review* that are relevant to us? In what journal can we find the lessons that we need to learn? We often reinvent the wheel ourselves and we need to focus a lot of brain-power to do that.

I think that the role of management schools is to develop management as a science and teach it. I think that we are going through a series of events that are not described well in the literature. It sounds like we are in for a paradigm shift. It sounds like the experiences of Western Europe and North America are a special case in a general theory of management that includes a whole variety of other experiences. That is why I view China and India as important learning places. The question is how to quantify this and propagate it through the teaching process.



Gleb Ibragimov, Vice President, Diana Holding, Russia

I am vice president of Diana Holding. This is the largest dry-cleaning business in Russia. It is a middle-sized company with about 2,000 employees and 30% of market share. Our annual turnover is about 1.5 billion rubles.

I am also a member of the board, partner, and vice president of Clean Standard Holding, an industrial laundry holding. While Diana is a business-to-customers company, Clean Standard Holding is business-to-business. It services hotels, hospitals, and military units.

Despite the global crisis we are not in a very bad situation. Otherwise, I would not be here. One way in which we feel the recession is through a decrease in demand. It fell 15% to 20% in 2009 in both types of business that we run.

One of the things that we did was to introduce a 24-hour service for clients. It is good for our clients but also makes us feel better. We have also availed

ourselves of the declining prices for advertising. During a crisis, people need positive signals like clean streets and clean clothing. We must give them such signals.

The current business environment does not provide opportunities for expansion. As banks do not give credit, the only recourse is to use shareholders' means. It is not a very popular idea but it is the only way that we can expand our activities during the recession. I believe that banks will appreciate this heroic behavior of the business owners and half a year from now will become more responsive.

The exchange rate of the ruble has had a negative effect on our plan to revamp our plant. However, we can consider Chinese equipment. I hope that we can solve our problem in six months.

Problems are a fact of life. As Ichak Adizes once put it, if you do not have any problems, you are not alive. The current problems give us an opportunity to think about our effectiveness and the way we operate our business throughout the holdings. Also, the crisis gives good opportunities for mergers and acquisitions.

The crisis is a favorable opportunity for outsourcing. Many companies resort to that instead of overhauling their own equipment. Recently, we won tenders for some big hotels in Moscow - Kempinski and Kosmos. They have closed their laundries and this is a trend. I expect that at least another 10 big hotels in Moscow will follow suit this year.

The reason is that running your own laundry is not cost-effective. A crisis makes a businessman hungry, angry, resourceful, and creative. He does not stop before any obstacle. This is the main benefit that a crisis carries for a company.

Social and political life does not consist only of political speeches but also of businessmen's plans and decisions about company development. We have cut our administrative expenses by 15%. We did that without laying off any workers. We believe that business should give positive signals to society in a period of crisis.

The devaluation of the ruble means that we have to look for domestic substitutes for some of the materials that we need. This course of action may help us cut our expenses by 15% in annual terms.

As I said, we have retained our human capital despite the difficult situation because the overcoming of the crisis depends on this factor. Knowing the human resource market, we want to improve our human resources.

Both of our companies are closely watching their competitors. We want to know who is having difficulties. This is a good opportunity for acquisitions and mergers and that is more effective than greenfield development of business.

We are currently conducting negotiations with two European market leaders in our business. They are not afraid of moving into Russia. They understand that a business cannot be developed without risks.

As usual, this recession creates a need for managers who can forecast and understand crises. I was not disappointed by the forecasting skills of our managers but the level of readiness for the crisis could have been higher. A crisis always means a disruption in the existing reality.

As far as this crisis is concerned, I think that the best response is the introduction of military discipline in expenses. We need to make our vision clear to our customers and the government and couple this with creative management. We also must have a Buddhist serenity of mind rather than adopt alarmist attitudes.

Business schools will continue to play a major role in understanding the core of the crisis, overcoming its consequences, and facilitating entrepreneurship when it is over. However, business schools also need to change. Students expect specific analyses of the current reality. Modern business schools should combine the best from theory and practice. They should diversify their teaching programs. They must help businesses overcome the global recession.



Matej Potokar, CEO, Microsoft, Slovenia

It is my great pleasure to be with you and share my views and ideas. Just like Mr Škrabec, I am another optimist from Slovenia. It must be in our DNA. We think that optimism is very important in this period. Sharing this optimism is also essential.

Although you probably know my company, Microsoft, let me give you some information about it. We have a presence in 120 countries where we own our subsidiaries. We have 95,000 employees. This is important because in this presentation I will focus on the role of people, which is absolutely crucial.

Our business model is completely based on our partners. Because we do not sell directly, it is our partners who generate revenue for us. By way of example, in Slovenia alone we have more than 800 partners. These are information technology companies whose success depends on ours.

Microsoft is a software factory. It develops the platform that our partners sell. Some use it to come up with their own solutions for their customers. This means that we have very serious responsibilities. We are not responsible only for our company. As the company's general manager in Slovenia, I am responsible for more than 800 other companies.

Microsoft's products are used by individuals, small and large companies, and the public sector. We are quite diversified. In Slovenia we employ 80 people, which means that we are a small company. Still, our employees have to deal with all company issues.

You know that technology is one of the main triggers of GDP growth. The information technology business is highly competitive. I must stress the fact that innovation is our only road to success.

At present we have a dilemma. Our revenues are declining. Investing in innovation is what can bring success. Last year, Microsoft invested \$8 billion in research and development. This year it has invested \$9 billion.

Research has shown that companies that invest in innovation come out of crises stronger. The crisis will be over sooner or later. The important question is how well companies will be prepared for what comes next. This crisis is not just about survival. It is about preparation for future growth. That is why innovation is so essential.

Increasing one's investment in innovation is a strongly positive message to our business partners. They realize that it is worthwhile working with a company that is so serious about the future.

Information technologies are not just about us. It is all about our customers because they are the ones that use our products and solutions. The crisis is also an opportunity to find new business models.

We have heard managers say that they were entering new lines of business and optimizing existing models. Information technology has the capacity to provide solutions for this hard period.

For example, teleconferences bring people closer. This technology already existed but now it is very useful because it brings people together for a small price. It also increases productivity because people do not need to travel so much. We need to provide solutions for crises and support companies so that they optimize their functions, reduce costs, and step up productivity.

The most important asset in an information technologies company is its people. If you do not have money, you had better have brains. Our brains are our people and their values. Matching brains and values is essential in our business.

We always hire the best talents in the market. We do not hire for a single position. We hire people for Microsoft. In a highly dynamic company like ours there is a lot of moving around. Positions change. You do one thing this year and something else the next. We also move people around the globe because our success derives from an exchange of experiences and practices. This provides great opportunities for people to develop and have an interesting career.

In a period of crisis, the management capabilities of the company leadership are extremely important. Like other companies, Microsoft has been affected by the crisis. In the last fiscal year, which ended on July 1, our revenues declined by 3% on a global basis.

Company leaders cannot increase the GDP of a country or reduce unemployment. But they have the power and responsibility to strengthen relationships with customers. I always say that it is easy to be a good partner in good times. In tough times this is much tougher. However, if you can do this right, you can establish very close long-term relationships with your clients.

It is important that leaders are visible and communicate with people. People are scared. Microsoft has laid off 5,000 people out of 100,000. Of course, those 5,000 have suffered the worst impact. But the remaining 95,000 are also affected. How did the company treat the 5,000 redundancies? What was the process? In Slovenia we let go four people. It is not a great number but still those are four individuals who lost their jobs. Fortunately, they immediately got other jobs with our partners.

Communication is important because people should know what is going on. Be realistic. Do not sell dreams. Talk about reality. That is how you can motivate them. We all have a commitment to achieve but the extra mile is crucial at this time.

Speaking of the new competencies that are needed now, we have to hire people who can work in an environment of uncertainty. We do not know when the crisis will be over. We do not know how deep it will be either. We need people who can tolerate change and can provide organizational agility. They have to be flexible and have fast reactions. Proactive attitudes are also required.

There is no simple recipe because the situation is extremely complex. Nevertheless, I would suggest something simple. As a manager, spend more time with your people. At the end of the day, they are the ones who will ensure your success. If you have an ambitious team, success is not far away.

As revenues fall, you have to do something. Cutting costs may not be the most effective method but it is the most obvious and easiest. Still, we also need to think about corporate social responsibility. As a corporation we invest a lot in order to narrow the digital divide and increase computer literacy. We know that only a knowledge-based society can be a successful society. Our job is to help companies become more productive by means of knowledge.

Sergey Myasoedov

I have been a customer of Microsoft for 19 years and I do not intend to switch to another provider in spite of the fact that their latest product, Vista, is awful and I have to struggle with it every day. Perhaps Generation Y will, but not me. I am just too old to change. However, I would like to ask a simple question. How does Microsoft plan to make the transition from the old platform to a new one in these difficult times?

Matej Potokar

Vista's problems will be solved on October 22 when Windows 7 comes out. But I would like to address another issue. You mentioned Generation Y. They are computer-literate and very difficult in many ways. You cannot expect loyalty from them but you can count on their flexibility.

In our company the average age is 31. The reason for that is that we rely on their passion for technology and we need that because the future holds a completely different paradigm for information technologies.

You may be familiar with the idea of cloud computing. This means that your data will not be at home or in your office but somewhere else and you will be a user of those data. You will pay as you go, buying whatever you need. That is why innovation is so important. We are talking about a completely new business model and completely new solutions. This is going to happen in a highly competitive market.

That means that we have to deepen and strengthen our relationships with our customers. With only 80 people in Slovenia we cannot cover all end users. That is why our partners are so important to us.

Nakiye Boyacigiller

In my area of research I look at the relationship between local culture and global culture in multinational corporations. I was fascinated by George Logush's presentation where he talked about the biggest problem being the centralized management of the company from Chicago. He talked about the distinctiveness of transition economies. How do the organizational values of Kraft Ukraine differ from those of Kraft headquarters? Is there such a thing as a global culture or not?

I also have another question. Since Kraft Ukraine is so successful, has it been used as a model for business in other regions?

George Logush

In the area of sales and distribution, we have encountered the challenge of traditional trade, which is still growing in Ukraine and other markets, versus the challenge of modern trade and key accounts that are expanding quite rapidly. We had to find a way of doing both in some sort of symbiosis. This model has been rolled out in Latin America and China.

Within Kraft, as in other companies, we have gone through a significant cultural change.

In the 1990s we were in the process of establishing new businesses in East European countries. The approach is quite liberal. We go in, we buy a business, we hire a good managing director, and we let him do what he needs to do. We realize that if you integrate, or "kraftize" as we say, you may destroy local entrepreneurship and understanding of business, as well as the close relationship between consumers and customers, which is a driver of success.

However, at some point there was a feeling that we needed to consolidate. With some exceptions, acquisitions virtually stopped. We started to build a matrix structure. We centralized and moved toward category management.

Then came the awareness that in the process of doing this, while we were leveraging certain advantages, we were also losing contact with our customers. Most importantly, we were losing our most entrepreneurial people. They would come into the company, look around and say "I am expected to be just a functionary and execute orders. There is nothing for me here. I am out of here into a more entrepreneurial private sector activity".

As a result of this, in the past couple of years Kraft has begun a major swing back toward decentralizing and creating accountable business units. Some of the power was moved from Chicago to regional offices whereas all the execution and all entrepreneurial elements were transferred to the local level.

We often discuss what entrepreneurship could mean in a large multinational corporation. How can you preserve local autonomy? How can you fine-tune general management in local units so that they act as owners of the business? How much flexibility should you allow for local brands?

If you have business units without local brands you have no market. With local brands you can focus on local customers and the local culture. You can benefit from local advertising, which keeps your market alive. We have always looked for a balance between international brands and local ones. Sometimes we lose it, sometimes we find it.

As for values, we believe that acting as owners is the most important one in the local context.

Randy Kudar

I also have a question for George Logush. You mentioned that in the development of your people locally, you sent people to two major schools so that they acquire better management skills. I would like to know why you were sending people to Western Europe and the US. Are there no schools in Russia and Central and Eastern Europe that can serve your purpose?

George Logush

It is partly because of the attitude of our own employees. They have the feeling that business schools in Ukraine and Central and Eastern Europe are weak. Professors teach from what they read as opposed to their own experience. Their experience is local and limited. They often do not have any international experience at all. So, what is the use of getting a local MBA degree? It is a waste of time. So, going to North America and Western Europe seems to be a panacea.

Then we have the occasional person who comes back (if they come back at all) who says "you know, what I learned there is applicable there. It does not tell me very well what to do in this environment". For example, if you have knowledge that is based on global brands and the philosophy that what is in Western Europe and North America will be all over the world sooner or later and local stuff should be disregarded, you are out of step and not very helpful.

I am an advocate of the perception that what we know about management as a discipline is based on knowledge from Western Europe and North America. But that is only one subset of experiences out of many throughout the world. You cannot compare France with Indonesia and you cannot compare America with Kazakhstan.

There must be a big step forward in the way that management is taught as a science. We need a shift toward a general theory of management. We are talking about a paradigm shift.

This means that there is a very important role for local business schools to play. They can be at the leading edge of the development of management science. As a result, Western European and North American schools could incorporate a richer sample of experiences from other regions of the world. However, I suspect that they would not be able to teach that very well without drawing faculty from this part of the world as well.

Lyudmila Murgulets

I am also a big optimist although I am not Slovene. However, I would like to know if the panelists see challenges for business education in the future. I address this question to all representatives of business because they are our customers and their opinion matters to us.

George Logush

My feeling is that we need to have a generation change. We need young instructors who know foreign languages and have been elsewhere and acquired a variety of cultural experiences. Only then can they teach and do research effectively.

My impression is that the current post-Soviet generation is still mired in book theory and does not have enough vision for the future. This is an awful generalization to make because there are all sorts of individual exceptions. But I have seen every aspect of life in these countries and I can tell you that it is the generational change that will make a difference in business practices and policies.

Janez Škrabec

I always learn interesting things from forums like this one and today I learned something new from Matej Potokar. Microsoft Slovenia does not hire people for a specific position but for Microsoft. I also hire people for my company. There is a prerequisite for that: they must hold a university degree. But there is something beyond that that they should learn. I expect that a business school will help me build the culture of my company. This is a major challenge for schools.

Wil Foppen

I would like to applaud this panel for putting such a strong emphasis on people. However, I would like to point out that in knowledge-intensive industries the role of people is special and is not the same as in other sectors.

At the same time the speakers sort of downplayed the crisis. We have never paid too much attention to the permanent crisis in the Third World but now that it has hit us, we cannot seem to stop rambling on about it.

I have a question for Katrine Judovica concerning franchise operations. You talked about growing your business through franchising. However, in that way you cannot control the incentives of the franchisees. Your franchisee may accept your corporate values in the first year but then decide to focus on short-term profit. How can you control that and make sure that the values of your company are not compromised?

Katrine Judovica

This is a crucial question for our business. Our franchise formula is not like the classic one. We do not sell the concept and just let people work with it. We maintain much closer relationships. It is more like a commissioning model where we share the gross margin of the business.

Our biggest success is that potential franchisees grow within the company. They really understand our values, approaches, ways of thinking, and the whole business model. However, there is always a thin line between what we can tell them to do and their entrepreneurship. We cannot cross that line. On the other hand, if our franchisees depart too much from our business philosophy, we cannot continue to work together.

Reflections from the Deans and Directors Meeting

Jim Ellert, Former Dean of Faculty, IMD Lausanne, Switzerland

We had a very stimulating Deans and Directors meeting yesterday. The session was titled "Business School Responses to the Global Crisis".

The day was organized in four sessions. We started with an introduction to the CEEMAN survey on business schools responses. This was followed by two panel discussions on the general theme of how particular business schools have responded to the crisis. We wrapped up the day with an up-date and discussion of the PRME initiative.

The CEEMAN survey results were presented by Milenko Gudić, Managing Director of IMTA, CEEMAN, and Al Rosenbloom, Associate Professor from Dominican University in the US.

This survey was an ambitious project with a very favorable response rate. There were 179 respondents. A little bit more than 20% of these came from Central and Eastern Europe, Russia and its neighbors, and the Eastern Mediterranean region. In total, 47 countries were represented in the survey. Most respondents described themselves as faculty with some administrative responsibilities.

The survey was administered during the summer of 2009 over a period of two months. This means that it is relatively recent. All of the questions are set up on a five-point scale: for example: "strongly agree", "agree", "neutral", "disagree", "strongly disagree", or "significant impact", "moderate impact", "no impact", and so forth. This survey will be available soon on the CEEMAN website.

Milenko Gudić and Al Rosenbloom started with a brief overview of the survey results. I can share with you some of the main survey results that reflect broad consensus among the respondents or strong majority views.

Most respondents believe that this will be a long-term crisis rather than short-term one. The crisis seems to have had an even impact across countries. The answers to the question of whether survey respondents had felt a stronger or weaker impact compared to other countries were not region-dependent.

For example, in Western Europe respondents from Spain and the UK thought that the impact had been more severe for them than for other countries. In Central and Eastern Europe, respondents from Hungary and Latvia expressed a similar viewpoint.

Respondents were asked what, in their view, contributed most to the current crisis. The responses that had the highest point counts included finance and economics and a lack of corporate leadership. However, by far the largest agreement was around shortcomings with respect to business ethics.

Respondents were generally critical of the way that we teach in business schools. There was a feeling that we simplify too much in developing our



theories and that we are too “bottom-line” focused rather than being more broadly focused on society.

There was a wide range on responses to the question of whether business schools are to blame for the crisis in terms of what we are doing in the classrooms. There was general agreement that we are to blame to some extent. However, respondents stated that there is not very strong pressure coming from external stakeholders for change within business schools.

The majority of respondents held the view that the level of competition among business schools has been declining and will continue to decline in the foreseeable future.

We moved from this introduction to a plenary session.

Some conference participants expressed surprise at two of the survey findings. They were surprised to hear that competition had fallen. Many of these participants saw it the other way around. Competition, they said, is increasing, particularly across borders. There was also surprise at the lack of sensitivity to external pressure for change.

Participants were critical of the deficiencies in contemporary financial theory and expressed the need for a broader societal role for business schools and also the need to learn more from past experience. It was advocated that business schools need more involvement with learning rather than with earning and securing favorable financial results.

Al Rosenbloom presented the survey findings on business school responses related to customer needs.

A majority of survey respondents cited curriculum changes as a result of the crisis, particularly for corporate education though less so at the undergraduate and masters level. The indicators were new cases and new assignments related to the crisis with a stronger emphasis on cross-disciplinary approaches.

Some schools have also added courses in the area of ethics and corporate social responsibility, leadership, cross-disciplinary approaches, financial crime, financial regulation, financial reporting, and financial derivatives.

For the most part, survey respondents indicated no changes in the level of faculty recruiting during the crisis with an expectation of a slight decline next year. They also reported that there had not been much change in terms of research support provided during the crisis.

We moved then to a panel discussion.

The two panel speakers, Irina Sennikova and Leonid Evenko, focused on what they described as unique environments - Latvia and Russia - although it seemed to me that there were more similarities than dissimilarities in the approaches that they described.

Both mentioned new program initiatives. For example, Irina Sennikova spoke about creative programs. As an example she gave Art as Business, which is a new program at her school. Leonid Evenko spoke about changes in program design. There is more emphasis at his academy on project-based learning as a consequence of the crisis as well as more emphasis on e-learning.

Both panelists argued that quality pays. This was a recurring theme in their presentations. Business education was viewed by the panelists as an international operation because it involves competition with foreign schools not just local ones.

Both panelists recognized that portfolio diversification pays in times of changing enrollment patterns and gave specific examples from their own schools. Both emphasized the need to pay closer attention to cash flows and cost and process efficiency as a consequence of the global economic crisis.

Additionally, Irina Sennikova developed the theme that the crisis provides opportunities. She noted that because of the fall in real estate prices, her school is now able to build a new campus.

The plenary discussion revealed significant differences in pricing approaches among schools.

The majority view was to stay firm on prices in order to protect the quality, image, and standards of business education. Some argued that, although

prices are being maintained, there are hidden discounts. Examples cited included expansion of scholarship funds or changes in the terms of payment that have a real impact on the cost of the program. At the other extreme we also heard a viewpoint that business schools need more pricing flexibility to suit the realities of this dynamic time period.

There was some discussion on the growth of English-language courses. Most participants acknowledged that these courses are expanding in number. However, some speakers indicated that domestic languages will remain important because there is very significant demand for tuition in these languages. The issue of Chinese was also brought to the table. Some participants felt that it was time to start teaching in that language also because of China's rapid economic growth.

In the afternoon, we had a second panel discussion.

Milenko Gudić updated us on the final set of responses from the CEEMAN survey.

Respondents had been given a series of questions about the survival of business schools in the face of declining revenues. One question was, "If revenues drop 5%, 10% or 20% how many years do you think you can survive?"

The majority of respondents felt that their schools could survive more than three years even if the fall in revenues was 20%. Also, they did not expect a significant decline in undergraduate or masters program enrollments in the short term. But the story was quite different when it came to executive education where revenue decreases were expected for this year and next.

A modest pressure on operating cash flows was reported in the survey results. The dominant pattern in tuition fees was "no change". However, the tails of this distribution were very wide in relationship to most other questions. There were significant tails in the survey responses indicating some plans for discounting prices and some plans for increasing prices during this period.

Respondents answered that sponsors are putting more money into business schools during the crisis. This is an encouraging indicator. Respondents generally expected no change or a modest decrease in research and development funding, capital expenditure, and marketing expenses over the next year although there was some indication that capital expenditure may rise.

A panel discussion followed with Nakiye Boyacigiller (Turkey) and Nerijus Pacesa (Lithuania).

Both prefaced their remarks by stating that their country situations might be unique. Nevertheless we saw a lot of similarities once again. Nakiye Boyacigiller said that in Turkey there is inadequate national supply of business education and limited means to pay. Competition is increasing in order to attract the best participants.

She also explained how demographics shape enrollment patterns. Currently, undergraduate programs are in great demand in Turkey. Nakiye Boyacigiller also stressed the importance of scholarships for the best students in her market place.

Nerijus Pacesa stressed the high demand for quality programs and the importance of portfolio diversification during a crisis. In his particular case, decline in in-company enrollment was fully offset by increases in open program enrollments during the year. He also talked about demographics, which are favoring the MBA generation in Lithuania rather than the undergraduate generation. Finally, he stressed the need for short-term responses while maintaining research and development and fostering leadership as a differentiating factor.

The plenary discussion focused on providing value for money rather than pricing. Training of administrators was also mentioned as a way of dealing with the crisis. Offering free seats in programs with limited enrollments to keep corporate clients was also mentioned. Once again, the issue of what business schools should do for society was raised.

The final session was a presentation by Manuel Escudero, Senior Advisor to the United Nations Global Compact and Executive Director of PRME (Principles for Responsible Management Education). He explained the importance of the PRME initiative and noted CEEMAN's pioneering involvement in providing the first sign-ups to this initiative.

He reviewed the six PRME principles and their compatibility with long-term corporate objectives as well as societal objectives. He stressed the need for periodic progress reports from participating organizations, suggesting an 18-month cycle and challenged the members of the audience to become even more involved in introducing PRME principles in business school curricula. He concluded by stating that business school leaders need to lead the PRME initiative whereas business school faculty members need to be the change agents.

During the plenary session Danica Purg reaffirmed CEEMAN's support for PRME, expressing hope and confidence that the number of participating organizations could be significantly increased.

On the whole I think we had a very productive day.

Reports from Parallel Workshops: “How are Business Schools Dealing with Global Crisis: Educational and Institutional Challenges”

Workshop 1: Undergraduate Programs

Tatjana Volkova, Rector, BA School of Business and Finance, Latvia

We had 10 countries represented in our group, which enabled us to share diverse experiences. When we started the workshop I asked the participants what kind of issues they would like to discuss. Somebody said that we should listen to our students. Unfortunately, we do not invite them to our conferences. Yet, it would be interesting to hear what their expectations are.

Another issue is how to become international. It was interesting to hear that representatives of Western countries had come here to learn from us. This is a two-way communication process. They learn from us as we learn from them. We can share our responses to the global crisis.

We discussed the issue of how we could get better integrated with society. Some people worry that business schools are a little bit distant from society and should get closer. Some of the other questions that were brought up were about content, curricula, and so on. An hour and a half was not enough to discuss all that.

We had three excellent speakers. The first one was Elena Zoubkova of MIRBIS, Russia. The second speaker was Costache Rusu of the Technical University of Iasi, Romania. Finally, we listened to Josiena Gotzsch of Grenoble Ecole de Management, France. This is one of 36 schools in the whole world wearing three accreditation crowns.

We learned that we are very diverse. We have different missions and we operate in different contexts. We are dealing with different challenges. This explains why the local responses to the crisis are so different.

For example, we learned that the Russian context is very challenging. First, students do not have enough financial support to study. It is hard to get credit from banks. Tuition fees are high and so are interest rates. This puts business schools in a tough situation. Students cannot afford their tuition fees. A similar situation is observed in Latvia. Interest rates on commercial loans have reached 30%.

MIRBIS is very lucky in that respect because one of their graduates is very successful financially and is now supporting the school.

A study has shown that 24% of students in Russia are interested in foreign MBA programs whereas 47% want to study in joint programs. I think that this is a general trend. The students want to get more international experience and we have to keep that in mind when we are designing our curriculum for undergraduates. We have to set up more partnerships with foreign universities.



Elena shared with us nine ways to exit the crisis. I am not going to mention all of them. Here are just a few.

We need to be focused. We have to focus on our strategy. We need closer relationships with corporations. We have to set up individual student study tracks. Not all students can study full time because of the financial situation and other reasons. Schools need innovative approaches to accommodate these needs.

Josiena started with an interesting slide showing that location matters. You need to be very close to the market. Your windows should be open so that the students can see what is happening outside the class. Their school is very nicely designed from an architectural perspective. It is also very close to the train station, which makes it easy to reach. For business schools, location matters as much as for real estate.

Even in France business schools are switching from tuition in French to tuition in English. We are doing the same in Latvia. But we were surprised to hear that some schools are switching to Chinese.

The language question is a big issue in Latvia. Should public schools be allowed to teach in English? The discussion is still going on. There is a law that says that international faculty cannot be hired full time to teach at a Latvian public school unless they know Latvian. When you ask Latvian politicians to do something about this, they say, "In what language do they teach in the US? In English. In what language do they teach in France? In French. So, students in Latvia must study in Latvian".

Josiena also talked about the values of business schools. These are professionalism, integrity, and openness. Also, it helps a lot when international business programs are run by international staff. The Grenoble management school has a lot of staff from different countries traveling back and forth and they have also achieved high student mobility. That is how a school can respond to the need for a global society.

Some of the other values that she mentioned were being proactive, reflexive, tolerant, and diverse. Josiena quoted Winston Churchill as saying that he was not afraid of history because he would write it himself. This is the proactive approach that schools should adopt to respond to the crisis.

It was also mentioned that some of the best business schools were not terribly affected by the crisis because they have invested so much and achieved a very strong position. Now these investments are paying off.

Costache Rusu, who is an engineer by education, was interested in looking at things in a systematic way. He thinks in terms of systems and sub-systems and how we have been impacted by the recession at different levels. He talked about content and internationalization as well as institutional level challenges, one of which is being responsible for the future. That involves building a sound and well-performing institution.

Workshop 2: MBA Programs

**Wil Foppen, Associate Dean,
Maastricht University: School of
Business and Economics, Netherlands**

First of all, I would like to thank Janina Jozwiak, president of FORUM - the Polish Association of Management Education - and former Rector of the Warsaw School of Economics, and Stuart Durrant, dean of the Central European University Business School in Hungary. Their contributions were really stimulating for our discussions.

One of the main questions for us was whether we have the ability to respond properly to the ongoing crisis. It is a paradoxical dilemma that we have to answer.

In my own presentation, I said that most MBA programs reflect the state-of-the-art of what we know about business and management. Often there is an academic component to what we teach. I also mentioned an article about how bad management theories destroy good management practice. So the question is whether we are really contributing. Is the process of delivery of our MBA programs adequate? Do we teach our students useful knowledge and skills?

Janina shared with us the Polish reaction to the crisis. As a result of the recession, there are more students who are interested in an MBA program. It is fascinating that more students than before are willing to pay for themselves. Quite often they come from their own small business companies. Interestingly, they are ready to invest considerable amounts of money in an MBA education.

Janina also said that the MBA curriculum now puts a greater focus on business ethics and corporate social responsibility. She was happy that there are European Union subsidies that make it possible for students to take an MBA program.

Stuart mentioned a couple of initiatives as a reaction to the crisis. He also dwelled on the earning versus learning dilemma. I must point out that this is more an institutional problem than an individual one. You must first make sure as a school that you have a proper business before you start offering business education.

One of the initiatives that Stuart mentioned targets companies that are about to fire employees. The idea is to make those companies do the opposite: invest in those people. If they are sent on executive education programs now they will later add greater value to the company.

As far as the students are concerned, a number of projects are being developed so that the return on their investment is more or less guaranteed. Stuart also spoke of the demystification of academia and researchers' claim that they should have absolute leeway to choose their area of research freely. At the Central European University research must be applied and the goals of research are defined by the institution.

The speakers' presentations were followed by a very intense discussion. We started and ended with the word "bridge". One of the things that we have to bridge is the fact that students select themselves for an MBA program. Do we, as a business school, have a responsibility to select them? On what basis should we do that? A GMAT exam, or an interview, or an essay? We do that but we do not select them on character. We do not select them on ethical and responsible behavior.

MBAs do not just train for a business career. They prepare for an environment with many stakeholders. They have to learn how to balance their dynamic interests. Therefore, different students take MBA programs for a variety of reasons.



Some expect a business career whereas others expect more learning. Some want to get rich. Others want to change the world. This diverse perspective is very important for us to keep in mind. Our responsibility as business schools is not just to prepare students for business but also to help them become good citizens.

At Maastricht we involve our students in open café-like discussions on critical issues. However, academics are not necessarily interested in continuous discussion of the crisis. After an initial strong interest on the part of the students, their attendance dropped and we discontinued this practice. But if they show initiative, we are ready to provide faculty who will discuss these issues with them from a variety of broad perspectives.

Janina made another very interesting observation. Individuals are ready to pay more for MBA programs but companies are reluctant to send students to such programs. The reason for that is that individuals and companies have diverging interests. We should study this more carefully if we have an opportunity.

One of the participants asked why we are so eager to provide MBA programs. The main answer to this is that they give visibility to the business schools that have them. An MBA program gives you a better opportunity to be seen by the world. This is especially true if you find yourself higher up in the ranking than you originally thought you would be.

An MBA program is a vehicle to build a reputation. Once you have it, you can use it for good or for bad. If you use it for good, you help companies achieve business success or ethical success. You create responsible citizens. You can also go for more money and thus build a better business school.

It was mentioned that medical schools do not exhibit the same tendencies as business schools. They do not rank themselves and do not strive to achieve visibility. But on second thoughts that is not exactly true if you look at how medical school research is funded and the impact of pharmaceutical companies. That is where some of the dangers come from.

It is the same with business schools. There are dangerous ways for a school to make money. Connectivity with the outside world has its pros and cons.

Arnold Walravens said that without continuous learning there is no earning. If you have something to offer to people to learn, you make good business. However, we know that some business schools put the emphasis on learning whereas other focus mostly on earning.

It was mentioned that MBA programs should prepare students for new market developments. Markets used to be closed but now they are becoming more open and global. A positive trend is the fact that students from countries such as China, India, and Russia often study together on MBA programs and help each other understand the intricacies of their markets.

One of the discussants said that we should try to see whether the EU would be interested in financing the development of good values in business education. It was stressed that we should lobby for that in Brussels. My response was that you need strong elbows as a lobbyist in Brussels so that you can get to the front row. But even if success is not guaranteed it is worthwhile trying this.

Another response was that even if the EU is not interested in funding that kind of initiative, business schools should take their own responsibility for the development and promotion of good values.

Even though the future is difficult to predict, or precisely because of that, we need to collect more data in order to figure out which way things might develop. Some current developments could have been anticipated. It is not true that there had been no warnings about this crisis or other previous crises. There were warnings about Enron, too.

If you look at the Letters to the Editor of the *Financial Times*, you will see that many people felt that things were going the wrong way. But the problem is that leaders are often unwilling to listen to such warnings.

After that, our discussions took two separate roads. We talked about academic issues and practical matters related to teaching. It was acknowledged that there are different criteria for promotion and an academic career, such as publications in leading journals. One's teaching practice does not help that

much for an academic career. One has to write and publish articles that only a few people read.

We also had a short discussion on MBA programs as brands. This is a very serious issue. The question of building bridges comes up again here. We have to bridge academia and the real world. We also need to bring up the issue of corporate social responsibility and business ethics in the classroom but that is more or less as much as we can do. We can point out these issues to the students but we cannot enforce them.

We live in a society where we believe that the enlightenment and liberty of people are the most important things. This is true and false at the same time. Voltaire announced that people had become free. But freedom involves responsibility. That means that if you build a bridge, you have to cross it both ways.

The most important thing for us is to organize this two-way traffic on the bridge and make sure both sides meet continuously. If we achieve that we will have made a serious contribution to the development of management education.



Workshop 3: Executive Programs

Fedor Ragin, Advisor to Rector, IMISP, Russia

Our workshop was a series of case studies. They looked at details of executive programs at different business schools. We also looked at more general issues such as global challenges and eternal values.

The speakers were Richard Lamming of Exeter University Business School in the UK; Bohdan Budzan, professor of management at IIB, Ukraine, and director and founder of the Management Consulting Center; and Hans Wiesmeth, dean of HHL-Leipzig, Germany. I myself am a representative of the IMISP of Saint Petersburg, Russia.

Dr Lamming talked about the challenges that executive programs create for business schools and the potential responses to those. His presentation was about the broader context that I would call eternal values. He said that there are certain sustainability challenges as well as economic challenges that business schools encounter. There are also social and leadership challenges.

Dr Lamming described the responses that Exeter Business School has adopted to those challenges. He mentioned a focus on research and on integration of the results of that research in their programs. His school works together with the World's Wild Fund and I find that very interesting.

They also have new programs that address changes in the world of finance. Dr Lamming believes that the old capitalist model needs to be rethought. The new ideas should be reflected in the programs of business schools.

Dr Lamming spoke of social challenges, such as demographic developments, and marketing challenges. He spoke of a need for tailor-made programs for corporate customers. Another group of challenges that he described are pedagogical. They have to do with how we teach. For example, there is a need for learning experiences and a focus on concepts, not techniques.

Dr Budzan described experiences from a number of different institutions. On the basis of the case that he presented, he answered the question of how, in his opinion, business schools should respond to the crisis.

First, he said, they have to understand the environment and their customers. They can achieve that by means of research. It is also important to have a practice-oriented program full of real cases. Business school professors should have not only theoretical knowledge but also relevant practical experience, which is not always easy to achieve.

Finally, business schools should offer a philosophical and global approach.

As an example, he described an eight-month program for Anheuser-Busch, a brewery. It is for 48 managers at different levels of the company's hierarchy. The focus is on how to make effective decisions during a crisis. There is also training in more or less traditional functional areas. The program is a great success despite the fact that some executive programs have totally collapsed during the crisis.

Through this program, the business school demonstrated knowledge of the current market and the client was convinced that its experts were competent enough to talk to their managers. It also helped that the business school managers established a direct contact with the client. Quite often that is the best way to get a training contract with a corporate customer.

Also, the business school kept close contact with the human resource management department of the company to make sure that the training process would go smoothly. Close contacts were also maintained with the graduates of the program in order to ensure future contracts.

Dr Wiesmeth described the general situation in Germany with respect to executive programs. Open-enrollment programs are still losing market positions. Tailor-made programs are about to make a recovery.

As far as his school is concerned, the situation is somewhat better. First of all, they noticed a certain delayed demand for open programs. They are getting increasing numbers of enquiries about them for January and beyond. I have noticed the same situation in Russia. People are not in a position to pay now but are willing to be put on a waiting list for next year.

Tailor-made programs are a growing part of the portfolio of HHL-Leipzig. This is probably due to their long history and special approach to their customers. They have special department units that deal with these executive programs. Another factor that explains this success is the privileged treatment of the customers.

Finally, they practice transparent marketing. This means that they are honest in managing customer expectations. They perform at the level that they promise. That is a very simple explanation of their success.

I presented a case from Russia. We are a privately owned business school that serves both open and corporate markets. We do not have undergraduate programs. We had such programs once but closed them down. We provide an executive MBA program and management consulting in the same package.

The school employs about 30 full-time faculty members as well as 10 full-time consultants who are not professors. Last year, the executive programs that we offered accounted for 25% of the total. Our annual turnover is 5.5 million.

In our view, the demand for business education in Russia has shifted over the past few years. More specialized programs are preferred to more general ones. Also, there is a greater demand for consulting. We see this even in open-enrollment programs. This is not typical because it is usually corporations that have a need for consulting. Next, there is a preference for short-term programs as opposed to long-term ones.

It appears that the main motivation of students is not self-actualization but an investment in a diploma that will show that the program participant has spent his or her money on something useful. The executive training certificates that we issue are made for a specific company and cannot be used outside.

The Russian business school industry has never been consolidated. The crisis made it even more fragmented. Some large players lost market shares whereas small ones just quit the game. Business school portfolios are being restructured in different ways, depending on how the schools see their environments. Sometimes this restructuring amounts to low-quality anti-crisis programs such as simply renaming an old product. I think that these programs have failed.

We have heard a lot of talk about adding value as a way to ride out the crisis. However, price reduction can be a valuable tool, too. We also tend to focus on the first echelon of businesses as opposed to the medium level, which was the case before.

An interesting marketing tool that we have come up with is the replacement of cash motivators with education. At a time when companies do not have enough resources for cash bonuses, they can send their personnel to a business school in order to keep their motivation high.

During our general discussion, we concluded that the recession can be dealt with relatively easily in the short term. However, we noted that there are eternal challenges that exist regardless of the crisis.



Workshop 4: Corporate Programs

Sergey Myasoedov, Dean/Director, IBS Moscow, Russia

Each time I moderate conference panels, I remember a passage in Anna Karenina by Lev Tolstoy. He says "Happy families are all alike; every unhappy family is unhappy in its own way."

Each time people tell us about the success of their companies, it is very boring. But when they tell us about their problems, we listen. I was lucky because in my section I had Rolv Peter Amdam, associate dean of Executive Master of Management, Norwegian School BI; Ingrida Loza, director of Executive Education of SSE Riga, Latvia; and Vladimir Nanut, dean of MIB-School of Management, Italy. All of them spoke about problems and solutions rather than tell us how brilliant their institutions are. That is my first remark.

Second, we found a wide spectrum of topics for discussion. First of all, we were not clear about the meaning of "corporate programs". Should these programs be taught inside corporations or at business schools? Should they be tailor-made or not? If a company sends a group of people to your school, is that a corporate program or not? We had a very interesting discussion about the definition of "corporation program".

After that, we discussed the crisis and we found that all three speakers had different views of it. For example, we heard that in Norway, the unemployment rate is only 2.7% and the fear of the crisis is much stronger than the crisis itself.

We also talked about the question of whether corporate programs should be degree programs or non-degree. Again, we found large differences.

In Norway, employees who come to corporate programs expect to get some credits toward degrees. But in Italy and Russia, corporations that send employees to business schools often ask the schools not to issue any degrees because the degree holders will leave the company.

Another issue was whether corporate programs should be business-oriented or the focus should be on the public sector. The Norwegian speaker told us about special programs that the public sector orders from business schools.

We also looked at distance learning and whether it is a threat or an opportunity for corporate programs. Finally, we discussed inspiration and professional orientation. This should be the core of corporate programs.

Exactly a week ago, I visited a Russian company that produces compressors for Boeing. It is a very innovative company with about 200 employees. The chief executive officer graduated from my executive MBA program.

He told me that he understood that leadership was very important. He also liked the idea of corporate culture. He agreed that we should think about emotional intelligence. However, his middle managers had a background in mathematics and engineering. They were very fond of calculations. Therefore, they preferred management science, operational management, and so forth.

Because of that, this chief executive officer wanted me to adapt the contents of our programs to the preferences of his staff. He wanted a strong emphasis on management science.

I believe that in a country like the US, where management science is strong and mathematics and statistics have a strong presence in MBA programs, it is necessary and possible to combine hard and soft subjects. You can even

add art to the program. But in my part of the world, I am afraid that this would run the program aground.

One of the conclusions that our panel agreed on was that we need to look at customer needs and find new market niches. We have to cooperate more and trust each other. We have to share experiences actively so that we create synergies. We also must act fast in today's situation.

Finally, I would like to quote a statement by Dr Ichak Adizes. Once he was asked by an executive how one could avoid falling during a crisis. Dr Adizes answered that everybody falls from time to time. Good leaders know how to stand up quickly.

We arrived at the same conclusion. We have to be proactive and move fast. If we want to be successful with corporate programs, we have to think globally and act locally.

Global crisis – commonalities and local responses from governments, businesses, and business schools



Derek Abell, Founding President and Professor Emeritus, ESMT-European School of Management and Technology, Germany

I have been asked to talk about commonalities and local responses. I have worked with a lot of companies and with some governments and I have some knowledge of what they are doing. I will tell you about some variations

that I have observed as well as some common trends. I want to add another comment and point out what nobody seems to be doing. Like Nancy Adler this morning*, I have some views on what is not happening.

In my opinion, the crisis stems from a breakdown in leadership. It is not a failure of ethics or social responsibility. What is behind ethics and responsibility is leadership. It is a fundamental problem. But if it is so fundamental, what are we doing about it? I have not seen a lot of bankers standing up and saying that they would do something differently. I have not seen a lot of chief executive officers standing up either. Neither have I seen them do many things differently. But I do have some ideas of my own about what should be done differently.

First of all, let me introduce the main theme. I will start with business and I will continue with public policy. As I do that, we will observe some common trends and some differences.

Differences and commonalities in the private sector

As far as I see, business is responding to the crisis at three levels. They are somewhat intermixed but I will present them separately for the sake of simplicity.

At the first level, we see a tactical response. It is a response to threat more than opportunity.

Business leaders feel threatened and they take operational actions to counter the threat. Typically, these responses involve tightening the belt and scaling back: cost-cutting and divesting businesses. We heard some of this today.

Many of the companies that take such action will come out of the crisis worse off than they had been before. They will lose some market share to those companies that see more strategic opportunities in the recession. But perhaps they do not have alternatives or do not think much about alternative courses of action. Typically, downsizing suggests that something has not been done before.

When I read in a paper that a company is getting rid of 5,000 jobs I always ask myself what the management of this company did not do earlier that could have prevented this. Unfortunately, when things have been allowed to get to

this point, in some of these cases there are no good alternatives. And the typical reaction then is to squeeze and cut rather than build.

Let me give you an example. I picked up a newspaper not long ago and read that Bulgari, a luxury manufacturer of jewelry and watches, had put silver sterling straps that used to be made of gold on their watches. I cannot imagine that this is a good strategy for a luxury brand in a crisis. They are cutting costs by using cheaper replacements. It is a cutting rather than building response.

Second, companies that operate at the strategic level tend to see much more opportunity than threat.

They see a chance to reposition themselves, improve their product lines, invest selectively in certain lines of business or in specific countries or research projects. Their main goal is to grab market share from competitors who are not so smart.

We heard a lot of this this morning. All five speakers said that they were involved in this kind of game. Of course, they also talked about cutting fat but that should be done anyway. It is not necessarily a response to a crisis. It is just a normal thing to do. I wish these five were representative of the whole economy. Unfortunately, most companies take tactical action, not strategic.

Companies that reposition themselves use the crisis to beat back some competitors and make selective investments with the idea that they will emerge stronger because they see the crisis as an opportunity.

A good example would be IBM. Their president told Barack Obama that if the US government intends to invest in infrastructure, that is not roads and bridges. Infrastructure nowadays means information technologies infrastructure. Of course, this was clever. IBM wants to build on the bailout package to finance IBM projects. That company has also been talking about a smarter planet. Obviously, they are using the crisis to say that we have not been smart enough and IBM can help with that. They are evidently trying to build a position relative to their competitors.

Another company that I am aware of is Investcorp. It is a large Gulf investor. It is buying businesses that are now relatively inexpensive. At present the price of acquisition is relatively low and you can pick up some very good deals. If these companies are making cuts, those are selective cuts. Their real intention is to increase market share whenever possible.

There is a third group. I would call these the "principled responses".

These companies do not go far away from their fundamental principles. They stick to the visions that they are pursuing, the values that they believe in, and the purpose around which the company has been built.

These companies look back at their principles first and foremost and do not deviate from them. They may say that they would go a little slower toward the accomplishment of their vision, but, they will not violate their basic principles even under stress. IBM is again a good example here. A couple of years ago it announced three fundamental values. These values have been upheld in the crisis. I think that in this case we see an even higher level of response. It is not just strategic but also principle-based.

By the way, companies that do not have sound principles and a clear mission and have not managed to get most employees to understand their values are relatively lost in the pressure of the crisis. If you do not have principles in the beginning, you float around not knowing what to do.

By and large, if you ask me why a company manifests an operational, strategic or principled response, I would say, that there are four underlying reasons.

There is the ownership story. Who owns the company?

Another question is whether you have fundamental principles that are understood and shared.

Then there is a question of health. If a company is in good health it has more room to be strategic.

Finally there is a question of financial reserves.

The companies that tend to be at the upper end of the response - which means that they are more principled and more strategic - tend to be family

firms. They tend to take a long-term view and be willing to ride out the crisis somehow. These are firms with clearly stated principles, visions, and values. These companies are instinctive builders.

General Electric is suffering in the financial sector but, believe me, it is a company that believes in building. Just like his predecessor, the chief executive officer of General Electric spends 50% of his time trying to build other leaders in the company. I recently asked people in some German companies how much time their presidents spend on building leadership. The answer was, "Between 5% and 10%".

Companies that have moved toward the operational end are large corporations that are driven by shareholder value and particularly short-term shareholder value. This means that they are concerned about what they will deliver to their shareholders in the next quarter.

There has been a great shift in recent years toward financing by means of private equity. With that type of financing, the horizon is short. Your intention is usually to keep your investment three to five years. These companies are much more operational in their responses. They want to maintain profit streams so that they stay profitable and sellable.

Companies that were in poor health in the beginning are now forced to cut.

Typically, they are even worse off now. They do not have resources and cannot ride out the storm. This point came through this morning. We heard that a company should keep some reserves through good and bad times. The same goes for people. Those who have some cash at the moment can profit from rising stock prices. Those who were fully committed to the market before the crisis started do not have any reserves now. It is the same with companies.

Differences and commonalities in the public sector

There are three similar groups in the public sector although the similarity is partial.

There are countries with reserves that have managed to ride out the crisis simply because they have money in their pockets. I would put China, Russia, and Norway in this category. The United Kingdom is not there unfortunately. It has spent its oil money. As a result, it is not in a good position now. By the way, Russia's economy was not in great health before the crisis but that country is doing better than some at the moment because of its huge reserves.

The second group consists of countries that do not have resources but feel they can tap either the bond market or the printing press. The US is the classic example. Not only does it not have enough reserves but in fact it has a foreign debt amounting to about \$2 trillion. Nevertheless, the US feels it can raise yet more money, selling treasury bonds. If China does not want to buy a lot of them, the US government will run the printing press. In that sense, they have a source of reserves even if it is not cash in the bank.

You can expect countries of this type also to find a solution to the crisis. They will spend their way out of it. However, the fallout of this approach will not be positive because they are essentially mortgaging their future. The great advantage of China is that it is spending money in the bank whereas the US is spending money that has to be raised or printed. This will have a negative long-term effect. The volume of national debt is going up and a lot of tax money will be used simply to pay interest.

The third category consists of countries that do not have money or any other reserves to fall back on. They have no other alternative but to tighten their belts. They have to make cuts and raise taxes. The Baltics and Iceland are in this kind of situation. They are unable to find easy sources of money to finance their way out of the crisis.

Interestingly, Germany is behaving very much like Latvia although it is not in such a dire financial condition. It is unwilling to spend large amounts of money as a solution to the recession. It is more willing to tighten its belt than to mortgage its future. This is part of the German mentality. Of course, they have an important reserve: excellent brands and technology. They hope that this will help them survive the crisis without spending too much money.

As you see, in the business sector and in the public sector we can identify three or four pretty clear approaches and we can understand why.

What is not happening?

This is what I had to say about the different ways in which companies and countries deal with the crisis. I would now like to return to the issue of leadership.

As I said, I see this crisis as a leadership failure. I would rather not use the word "ethical". Company boards are not asking why their chief executive officers allowed things to get that bad. In most cases those same people are in charge of the same companies. There are few attempts to change the leadership.

Business schools are not doing much either. Apart from offering a few new courses, nothing much has changed. We had courses on so-called corporate social responsibility long before the crisis. Did that do anything? Will more courses do anything? I am not convinced that we are on the right track here.

Let me try to explain what I think the problem is.

Russia's president wrote an excellent article recently. It was called "Go, Russia!" I read it with great interest because it is very reflective and self-critical. It talks about endemic corruption and the buying and selling of assets as the source of wealth in Russia, not value creation. It also talks about over-reliance on resource-based industries and short-term profit taking rather than long-term building. He also mentions leadership failures.

The truth of the matter is that we are not saying what he is saying. He talks about Russia but we have the same issues in the US and Western Europe. Nevertheless, we have been a little less critical of ourselves.

If leadership is what got us into the crisis, it is also the key that will get us out of the crisis. It is also the key to preventing the next crisis.

When I say "leadership", I do not mean just the people at the top of the corporation. I mean it in a much more generic sense. I have in mind the whole structure of leadership up and down the line in corporate enterprise. We see highly decentralized leadership in many companies, which means that we have a failure at many levels.

Many leaders of large companies say "we did not know that this was happening". But that is not valid. Leaders are supposed to put in place the framework that will prevent this from happening. They have to be vigilant and know when the ladder against the wall can slip.

There are many debates nowadays in the US about capitalism and the market system. Is it as worthy as we thought? The answer to this is simple.

When the market system is coupled with good leadership, it produces great results. A market system with bad leadership produces catastrophic results. It is not a question of whether we should have a market system or a command economy. The question is whether we have good leadership with the market system. Given good leadership, I have no doubt that this is the best economic system that we can imagine. But poor leadership can cause a catastrophe.

What can we do about it?

Let me make a few comments about what we should be talking about instead of what we are talking about. One word that people are using a lot is corporate social responsibility. I think that this is badly defined at the moment. It needs to be totally rethought. I am not even in favor of these words.

We had an executive program in Berlin. A 40-year old man told me that he had just been appointed head of corporate social responsibility in a company of 200,000 people. I said "I did not know that you were the president". "Oh, no! It is a staff job," he said. This is the current practice in many companies. Corporate social responsibility is staff work. As long as it stays that way, it will never work. It should be the responsibility of line leaders and general managers.

The second thing is that it is more of a public relations exercise than something real. In fact, some of the people who are appointed to head a company's

corporate social responsibility office come out of corporate relations jobs. You can imagine that they see the job as communicating good things not doing good things. That is why I am not satisfied with what the term corporate social responsibility implies in many companies.

Third, corporate social responsibility is a lot more about the things outside the business. Companies are involved in good deeds. Executives are on the boards of local charities. They support concerts and sports activities. This is not a business responsibility. Doing things outside the business is just decoration. It is nice but it is not the main point.

I do not think that business is responsible for social activity. Not at all. Business is responsible for producing something good that will create a positive not negative societal fallout. That is what we should concentrate on. Corporate social responsibility, as it is currently practiced, is not solving our problems.

Shareholder-value driven enterprises are also not right. This will not work because the job of the chief executive officer and his team is to keep the value machine turning. This machine is fuelled by stakeholders: employees, leaders, financial investors, and government. These are the four contributors to value creation.

If one of these groups takes home more than its fair share of the profit, the value-creating machine will grind to a halt. If, for example, we pay too much attention to the employees in some sense and forget about the shareholders, the machine will not work anymore.

The job of the chief executive officer is to keep a balance in equity between these four players. This is a different idea, not the same as shareholder value, which is the idea that an enterprise exists to satisfy the shareholders primordially.

Actually, it is a bit like happiness. If you get up in the morning and say to yourself that you want to be happy, you may be sad. But if you get up in the morning and do things that make you happy, you will be happy. I drink coffee and read the newspaper and I feel great.

It is the same with profitability and shareholder value. Companies should do things that they are passionate about and create products and services for customers with employees who are mobilized and passionate about what they do. As a result, they will make lots of money for the shareholders. You have to put the focus on those things that really produce return.

The way that corporate social responsibility and shareholder value are defined currently creates an antagonism between these two concepts. This will never work in practice.

Another thing that is not properly defined is corporate governance. When people talk about improving corporate governance, 99% of them are talking about improvements in boards. But boards do not run companies. Governance is a leadership issue. It is about top leadership in a company providing a frame of reference for others working lower down.

I have worked a lot on what leadership should do to provide a frame of reference and make sure that it is obeyed. It is quite complex because it has to do with communications, personal conduct, systems, and many more. However, one of the most important things is to know when you are in a risky situation. You have to see that the ladder against the wall is tippy. That is not only a board responsibility. It is for leadership to do it.

I listened to the Global Compact presentation last night and I believe that what is needed are leaders who can resolve dilemmas and reconcile conflicting pressures. That is our job in business schools: we have to help them resolve these dilemmas. Sometimes this is possible to achieve with a win-win solution. It does not have to be win-lose.

Here is one such dilemma: should we pursue the bottom line today or build for tomorrow? If we choose the second, we have to go for innovation and transformation. We have to build brands, organizations, people, and customer relationships. Every business leader that I know spends his days balancing these two requirements. What is the right amount of time and money that you must spend on today's issues so that you get results? You need results because the shareholders want to see results. Your employees want salaries. On the

other hand, you also have to think about tomorrow.

Clever leaders and their companies manage to do both at the same time. If you did well five years ago in innovating, transforming, and building your enterprise, results are easy to get today. But if you shortcut those things five years ago, good results are hard to obtain. What we have to teach people is to do the right things for the future now so that the next time around they get results today. That is a win-win solution.

Another dilemma is how to reconcile risk and return. There is nothing wrong with taking risk as long as it is transparent. There are higher returns for risk.

But the problem is that we have not been transparent about the risks. And the returns were too small. Even worse, incentives and bonuses were given to people who took risk and when they got in trouble they wanted to be bailed out. That is no good. We have to find ways to help executives balance risk and return in a transparent way. We want higher returns but we have to know that we are taking higher risks.

I do not think that large bonuses are a problem. That is absolutely the wrong issue to discuss. The question is how to prevent executives from taking such high risks that put the company in danger. They should get paid well when things are going well but they should be penalized when things go badly.

There is also the dilemma of the business agenda versus the societal agenda. That is why I am against corporate social responsibility as it is currently practiced. We want to create a good business but we leave turbulence behind. We lose jobs and we cause environmental damage.

We have to find out how to combine good business with a good social agenda. The biggest responsibility for a business is to generate growth and profit in a responsible way. That is what you have to put upfront, not "responsible leadership". A business leader's number-one responsibility is to grow a long-term sustainable business.

Again, I do not like the word "sustainability" because it is used to describe green environmental concerns. "Sustainable business" is a better idea. The main task of an executive is to work hard to build a long-term sustainable business and then hand it over to somebody else who can carry on with it. But please do not put responsibility first and business second.

The fourth dilemma is the reconciliation of personal goals and business goals.

My impression is that there are two types of leaders. There are those who ride the horse till the horse dies. These are people who see the purpose of what they do as lining their own pockets. Those at the other extreme ride the horse till the rider dies. They have a tendency to kill themselves for the organization. That is not good either.

We have to help executives learn how to ride the horse in such a way that they and the horse can go a long way and then somebody else can continue to ride it. We cannot accept the idea that the business is subsidiary to the person. But we cannot agree that the person is subsidiary to the business either.

The fifth dilemma is the reconciliation of ethical and business issues.

I have just written a case about a banker operating in the Gulf area. The banker is offered a job by a competitor that pays twice as much as his current one. The problem is that this competitor wants him to bring most of his customers with him as well as key members of the team.

This is like asking somebody to root out the customer base of the business. Private banking always poses such risks. But in the Gulf area it is an even bigger risk because these people have very high personal net worth. If you can get your hands on some of them, that is worth a lot. That is why the competitor is willing to double this person's salary.

The case is not about the dilemma that this man has to solve for himself. It is about why the bank did not see the risk beforehand. Why did they not put in place some measures? For example, give the man a highly attractive career path. They congratulated him each year but did not increase his pay. What about a "no-competition clause", meaning that if he leaves he will not work for a competitor. All of these things are ways in which you can resolve some of these ethical dilemmas.

Teaching business ethics is not about teaching what is right or wrong. It is about teaching how leadership should put in place a governance system to prevent people from falling down the hole. I think that this is a productive way for business schools to go forward.

I have been doing some writing on these issues and we run a program in Berlin. I also run one with Danica Purg in Bled.

The story of responsibility is raised within a bigger story of responsibility: running and growing a sustainable long-term business. Not as corporate social responsibility and not as ethics but in a bigger context of leadership responsibility.

Of course, we need a lot more case material for that. We need to see how people resolve these dilemmas or fail to resolve them. What things work and what things do not work in order to get long-term sustainable profit and growth? After all, that is the ultimate objective. We worry about ethics not because we want to be nice people but because if we are not ethical that will ruin the company.

I wrote some other cases about so-called toxic products.

One is about the general manager of a video games company where people regard the games as toxic for children. The idea is to get students and executives to understand that "toxic" has three levels.

Something can be toxic for an individual customer. You sell a product and somebody suffers or even dies. Naturally, that is a worry. But some things can be toxic for a whole society. There are some products that are fine for the customer, such as sports utility vehicles. But they are toxic for society because they burn a lot of energy and give off carbon emissions.

The worst cases are those that are toxic for the company because they bring it down. These are some of the things that we should write cases about and do research on.

These are some hypotheses about the kind of things that work and the things that do not work. Let me share with you some of the things that bring long-term growth and profit when leaders do them.

One is that leaders have to learn to wear three hats interchangeably.

The first one is the hat of a manager. It is a performance-orientation hat. It is about getting results. It is about being tough and disciplined and performing.

The second one is the role of mover and shaper. This means bringing the company to the future, which involves transforming, innovating, and building. That is very important and a lot of leaders spend a lot of time on that.

The third one is the role of governor. Leaders have to provide a governance framework.

I am trying to understand whether leaders understand these three roles and how much time they spend on each of them. Typically, you will find that leaders feel under pressure and spend about 70% of their time on managing versus only 25% trying to move things and change them. Sometimes they spend even less time doing that. That is why we are in a mess now.

And they spend an extremely small amount of time on governance - doing what is needed so that people do not fall into a trap. Of course, this is a generalization. There are many examples of great leadership.

An important trait for a leader is the ability to build and install shared principles. The rest of the organization should know what your vision, mission, and values are. This cannot be done by sending e-mails around or putting statements in a brochure. It can be done through constant communication. These things are reinforced by actions. If there is no action, communication will be impotent.

I already mentioned that a leader must constantly maintain the value-creating machinery of the company. This means looking for equity between society, shareholders, employees, and government. By the way, "employee" refers to all those who are involved in your business, including the suppliers, not just those who are on your payroll.

We had a case in Switzerland with a company called ABB. The employees were very motivated until they discovered that the president had paid himself

160 million Swiss francs into a pension fund. When this was disclosed, the motivation went way down and so by the way did the share price.

The next important leadership trait is the ability to recognize where the problems are in a particular industry.

For example, Silicon Valley in the 1990s was a hotbed of intrigue. Information was worth a lot and people were willing to buy it. They would cut corners and sometimes cheat. Russia today is a little like that. You can make lots of money by cutting corners. What I admire about the country's president is that he admits that and is trying to implement measures that can prevent it. Executives have to do the same and business schools must help them learn how to do that.

Great leaders of great companies never take their eyes off two things: innovation and investment. There are no great companies that do not constantly innovate and invest. I do not mean just incremental innovation.

If you do not bake a very big birthday cake for your children, you can expect everybody to fight for the pieces. If everybody is to benefit from what your company is doing, you must bake a big enough cake. And a cake is baked through constant innovation, value creation, and investment. That is building for the future. If you do not do that, you can expect problems with all the other things.

Manuel Escudero

I agree with what you said. I think that the concept of corporate social responsibility is one thing and the practice is another.

We see two types of companies.

The first type has incorporated into their DNA what you talked about. They balance the expectations of the four groups that you mentioned.

The second type are companies that are only involved in a public relations exercise. I think that we see a transition from the second type to the first.

However, the concept of corporate social responsibility, corporate citizenship, and so forth is still quite new and we do not know very well what we are talking about. We have a problem of maturity here.

As for what you said about leadership, I think that you are absolutely right. Only leadership will make the change. That is why, when leadership is mentioned, my first question is whether the leaders are capable of achieving change.

For companies to achieve long-term growth instead of short-term quarterly profit, leaders need to do two things in my opinion.

As Nancy Adler* put it, they have to see reality. Unfortunately, quite often they are not capable of doing that. If you do not see reality, you do not have power. I think that the question of power is central here. Change in a corporation means redistribution of power. However, most often that is not happening.

In my view, we need to change the concept of what a leader is. That is not somebody who is trying to maximize share price. It is somebody who is involved in the reality of the company. If leaders do not exercise their power to change the company, nothing will happen.

Derek Abell

I still use some films from the founding years of Hewlett Packard. That was 40 or 50 years back. You can see in them the simultaneous concern for long-term profit growth, building people, and responsible behavior.

Here is just an example. A friend of mine was running Hewlett Packard in Berlin in the 1950s. Hewlett came to visit. My friend said "I wanted to tell you that we have been selling these boxes but they are not completely finished because our customers want to get rid of their budgets in the current year. It is to our advantage to ship the product and get it out of our premises. We will get paid earlier and the customers will like it".

And do you know what Hewlett said? "We do not do that." It was absolutely crystal clear. That is what leaders have to do. They have to make clear where the lines are and enforce them in some fashion.

I think you can achieve a lot in education to get this message across. Show films. Bring people to your class who are doing what you said. That is how you start developing best practices and help leaders get better at it.

Arnold Walravens

Derek, you were very critical of modern concepts such as corporate social responsibility and sustainability. You attacked all of them. But is it not preferable to see them as a better alternative to older concepts that did not work?

Instead of trying to destroy these new concepts, is it not better to work on them in order to make them work? I am trying to suggest that you should be a little more open to the new concepts.

Derek Abell

I would be open to the new concepts if they were working. But, honestly, I do not see any positive effects in our current crisis. Harvard Business School and many others have taught business ethics courses. Where is the positive effect?

I am skeptical more than I am critical. I am skeptical of the current manifestation of corporate social responsibility as practiced. Also, I do not believe it is a staff job. It is a line job. This is a criticism. I also do not believe the focus should be on public relations and decoration. It should be on the real thing.

I am not criticizing the idea of responsible behavior. I am criticizing the current understanding of it and its practice. This is our role as educators. We have to look at practice and see if it conforms to our expectations.

*The keynote address of Prof Nancy Adler, S Bronfman Chair in Management at McGill University in Montreal, Canada is available only in video format from CEEMAN website, www.ceeman.org

Personal views on leadership in times of crisis and what CEEMAN could do about it

**Ichak Adizes, Founder and Director,
The Adizes Institute, US**

"Business schools ... teach their students to ... analyze data, write reports, and know how to present them well. But do they teach people how to work with each other? No! Maybe we should change our name to the School for Autistic Management?"



I have been asked to talk about how business schools, and specifically those in CEEMAN, should react to the current crisis.

Let me start with a story.

When I was a kid my mother would say that I should not go outside in the wind after a hot shower, because I would catch a cold. I wondered why I would catch a cold after a shower, when people in Finland – and I hear the same is true in Latvia – like to sit in a sauna and sweat and then jump into cold water. They do not catch pneumonia. They do not die. Rather, they feel invigorated.

Why do I get a cold just by sticking my nose out the window, whereas another person can roll in the snow and feel invigorated?

What is the difference between them and me?

I have also noticed that I catch most of my colds during the summer, when the weather outside is hot but I have the air conditioning on inside. I go in and out – and I get sick.

What is going on?

It is not the cold or the wind or the air conditioning that makes me sick. It is my body, which is not capable of dealing with change. If it were strong and used to change, I could jump from a sauna into cold water and even enjoy it.

The problem is not out there. It is in here; it is within us. When you are healthy and used to change, change is invigorating. But if your immune system is weak, a change will get you into trouble.

We usually try to see a problem as something out there that is giving us trouble and causing a crisis. But the truth is that we are the problem.

Not every person, company, or country has problems in times of change. It depends on how healthy the system is. And what does "healthy" mean? What does it mean to be a healthy organization or a healthy country?

The system is healthy when it can deal with change without falling apart.

And what makes a system healthy?

Change causes disintegration because all systems are composed of sub-systems, and sub-systems do not change at the same speed. With change, systems fall apart (disintegrate).

Change causes disintegration, which is manifested in what we call problems.

Now, if all problems stem from disintegration caused by change, what is the antidote?

Integration!

When a person is in serious trouble, we say that he or she is “falling apart”. A family or a country can also fall apart.

When a person is in prime condition, we say “this guy has it together”. We also say that a country “has it together”. When you are integrated, you are “together”.

And what does being “together” mean? Are modern companies “together”?

Based on many years of experience with companies worldwide, my answer is: no, they are not. And that is why many companies got into trouble when faced with the current crisis.

What has “fallen apart”?

Owner/management disintegration

The capitalist system is based on the presumption that capital produces value. You invest money and your money will work for you. You yourself do not have to labor.

But since you rely on your capital for your well-being, it is normal that you will want to control what your capital is doing.

At the dawn of capitalism, owners did control their capital. Owners were the managers of the companies in which their capital was invested. In modern capitalism, ownership is separated from management. You buy shares and someone else manages the company for you.

This bifurcation, created by the stock market, is credited with the creation of tremendous wealth. However, it has also produced side effects. It has created disintegration. Owners have lost control of the companies that use their capital. If you do not like the way the company is being run you can sell your stock – but that is all you can do.

What about the boards of directors? Don't they represent the owners and supervise management?

Granted, boards of directors are supposed to represent the owners and supposed to supervise management. But do you really think that boards of directors know what is happening in the company? They do not. How can they know what is going on in a company that employs 20,000 people? All they really know is what they can learn by reading the company's financial statements.

But it is not only the board that is detached. Chief executive officers can also be quite detached from the day-to-day reality of a company. There is “management by walking around” but just try to walk around a multinational company and meet the employees. It can't be done, can it?

Don't managers and boards know what is going on from the reports they get, from the financial statements? No. Financial statements should and do tell you something about the condition of the company but by the time you find out there is a problem it is too late to prevent it.

And what is wrong in managing by reports? It is management of outputs rather than inputs.

Allow me to explain what is wrong with that, with a joke.

At an international medical convention when the Soviet Union was under Stalin's regime, the South African representative stood up and said “we transplanted a heart”. Applause. Then the French representative announced “we transplanted lungs”. Applause. Then the Soviet representative stood up and proudly declared “we extracted a tooth.” Silence. The audience was bewildered.

During the break, people asked him “what do you mean, you extracted a tooth?” The Soviet representative explained “oh. You do not understand. It was a major achievement. We extracted a tooth from the rectum because nobody dares to open his mouth”.

Managing by financial reports is managing from the wrong end. It is managing by financial statements rather than managing the people and their interactions, which produce those statements.

Management/worker disintegration

The first disintegration is ownership from management. But there is another disintegration: management has become detached from the workers.

When companies were small, owners/managers knew every worker. They had to take care of them because they depended on the workers as much as the workers depended on the owners. Owners/managers also had their names on the door and took responsibility and pride in how their companies treated the community in which they operated.

Now the companies are behemoth, spread all over the globe. Employees are a name on an employment list and a statistic under "labor costs" in the P&L report.

What many do not realize is that employees are an asset not just an expense.

Do you know who knows the company – its problems and uncaptialized opportunities – the best? The employees. They can tell you what is going on in the company better than anybody else.

But does management listen to them? Sure, there are suggestion boxes, but they usually collect cigarette butts. There are open-door policies but how many workers have you seen walk through the open doors of the president's office to talk to him or her?

So what are we talking about? We are talking about a flat-Earth theory – except in this case the earth is not horizontal; it's vertical. Energy flows only from the top to the bottom and that is it. It is management by reports. It is elitist managers, who are not listening to the people they manage.

Management disintegration

There is disintegration among managers, too.

In a typical executive committee session, the lights are dimmed and a PowerPoint presentation appears on the screen. You see a succession of tables and charts. Tables and charts, graphs and tables. And how much open sharing and discussion is there? How much time and energy does management spend to nurture transparency, openness, and integrity among their subordinates? A very small percentage of their time is spent with that purpose in mind.

Is there teamwork? No. And how easy is it to make changes in a company where the people are interdependent but non-cooperative?

To illustrate this situation, allow me to tell you a story from my teenage years. When I was in high school, my class took a night train from Biarritz to Paris. Like typical teenagers, we all tried to sleep in the same compartment. Some of us were on the seats and some were on the floor. A foot was sticking out here and a body was sprawled over there. It took us an hour to fall asleep; then somebody had to get up and go to the bathroom.

That caused a total commotion. We started quarreling – "You idiot, why didn't you go before?" "Don't step on my hand!" "Watch my head!" – and so forth.

In organizations, many managers prefer, metaphorically, to pee in their pants rather than make a commotion by requesting some change. I often joke that that is why people in many aging companies wear dark suits – so that it doesn't show. Eventually, they all pee in their pants, and people start complaining, "This company stinks!" For sure, it does.

To achieve change, which is essential for successful management of any company, you need an organization that can change easily. For that, the organization needs teamwork: cooperation and mutual trust and respect. Managers need to talk more, share more, be open with each other more, and support each other more. But who takes care of it? Management is too busy watching PowerPoint presentations ...

The solution

If the cause of all problems is disintegration, it follows that the antidote is integration. We need to manage the integration horizontally and vertically. We need to manage togetherness.

But we do not teach future business leaders that do we? Business schools are proud of their computer lab. They teach their students to sit in front of a computer, analyze data, write reports, and know how to present them well. But do they teach people how to work with each other? No! We are training autistic managers!

One manager once said to me “Dr Adizes, I like to manage; it is people I can’t stand”. But what did he think he was managing? Oh, yes. I just remembered: the financial reports.

Successful leadership training

Management is about working with people. That is what we have to teach. Instead, we are training people who will eventually become consultants and investment bankers, people who know how to analyze reports and make presentations. We are not training leaders of change.

Even when we try to teach leadership, what do we teach? To know Maslow’s hierarchy of needs? That is fine but it is not even remotely the extent of what our future leaders need to experience if they are going to lead.

So how should we train leaders?

Put the students in a room and give them an assignment in which there is a conflict. Teach them how to resolve it. Teach them how a leader behaves.

And how does a leader behave? With a small mouth and big ears – not the other way around. A leader is a thumb. What does a thumb do? It works with all the different fingers to create a hand.

A leader knows how to integrate diversity of opinions and styles, how to help people disagree without being disagreeable. A leader is capable of building and nurturing a culture of mutual trust and respect – a culture in which people are not afraid to speak their minds.

Without a thumb, you will not have a hand. Without a leader, there is no teamwork – and without teamwork, the cart will be stuck in the mud.

Let me share with you something from an article in the 17 August 2009 issue of the *Financial Times*. It is called “The capital gained from culture”:

“Gordon Nixon makes a point of escaping Canada’s frigid winter each January for a Caribbean cruise. But the excursion is more work than pleasure for Royal Bank of Canada’s chief executive. His 700 fellow passengers are RBC tellers, administrative staff, junior employees, and middle managers who are being rewarded for superior performance.

“Mr Nixon joins the cruises to put into practice the teamwork and mutual respect he has tried to foster among RBC’s employees ...

“As he sees it, that culture has played a crucial role in RBC’s ability – rivaled by only a handful of other large banks – to ride out the storms that have battered the financial services industry during the past two years.”

Organizations are like fish tanks. Unless you supply them with oxygen, from the top to the bottom of the tank, the fish will die.

Quo Vadis CEEMAN?

We have to change what and how we teach. When Professor Danica Purg founded CEEMAN, she said to the leading business schools of the West: “give us the best and keep the rest”.

You have borrowed too much. You have copied the flat-Earth theory of management. That is wrong.

Clean the dust off the books on industrial democracy. It is time to revive this old idea. Teach future leadership to listen to the workers and to each other, to manage more by pride of teamwork and less by worshiping numbers. We have to be “together.”

Integration is the secret of a healthy organization and that is how we will turn a crisis into an opportunity and succeed in the future, and leave behind those that are fighting among themselves to catch the cold.

Thank you and God bless.

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Your Window to Management Development in a World in Transition

CEEMAN is an international management development association which was established in 1993 with the aim of accelerating the growth and quality of management development in Central and Eastern Europe. Gradually CEEMAN has become a global network of management development institutions working mainly in emerging markets and transition economies. The organization's interests cover the quality of education, research and innovation in these economies, as well as the broad range of subjects related to change and development.

With professional excellence as its aim, CEEMAN fosters the quality of management development and change processes by developing education, research, consulting, information, networking support, and other related services for management development institutions and corporations operating in transitional and dynamically changing environments. Its holistic approach to the phenomena of change and leadership development celebrates innovation, creativity and respect for cultural values.

CEEMAN's objectives are:

- To improve the quality of management and leadership development in general and in countries undergoing transition and dynamic change in particular
- To provide a network and meeting place for management schools and other management development institutions in order to promote and facilitate cooperation and the exchange of experience
- To provide a platform for dialogue, mutual cooperation and learning between management development institutions and businesses that are operating in the context of transition and dynamic change
- To promote leadership for change, global competitiveness and social responsibility, innovation and creativity, and respect for cultural values
- To represent the interests of its members in other constituencies

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- Educational programs to strengthen teaching, management, and leadership capabilities in management schools
- Case writing support
- International research
- Publishing
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RISEBA joined CEEMAN in 1995. A testimony to the quality of RISEBA is the International Quality Accreditation awarded to the school by CEEMAN in 2001. CEEMAN International Quality Re-accreditation was awarded to RISEBA in 2009.

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