

Management Education in a Changing World: Are We Ready for the Challenge?

**Proceedings of the
19th CEEMAN Annual Conference**

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Day 1: Conference opening

Welcome words



**Danica Purg, President of CEEMAN
and IEDC-Bled School of
Management, Slovenia**

Dear ladies and gentlemen, dear friends,

Welcome to the 19th CEEMAN Conference in Tbilisi, Georgia.

I would like to start with a few words about CEEMAN because we have quite a lot of new members here. Since

the last conference in 2010, we got 28 new members, adding up today to 192 members from 48 countries. We are really becoming a global association; roughly half of our members are from the Central and Eastern European region, whereas the other ones are from all over the world. In spite of that, we are still keeping our original name: CEEMAN - Central and East European Management Development Association. We are especially happy to have two African members with us today because we believe that we have a lot to share with other emerging economies. Twenty years ago we were simply mimicking the West but then we adopted the slogan "Give us the best of the West and keep the rest!"

We have come a long way by now. We have gathered important knowledge and skills and created some fantastic schools. This enables us to share our expertise about societal development with others. This is why we have set up CEEMAN: it is an association with a focus on emerging economies. This spring I participated in the events of the African Association of Business Schools. I was extremely happy to witness the quality of the business schools there and the high concern for management education for the benefit of society at large. I was pleased because our own focus in the education process has never been on profitability but on sustainable development and the responsibility of management schools to create a better world.

As I said, we established CEEMAN to accelerate management and leadership development in Central and Eastern Europe, aiming to set high quality standards in this part of the world. We set up our organization in a time of big change and growing global complexity. Nowadays, the change is even more profound than it used to be 19 years ago and the complexity is growing. I am sure that Georgia is an excellent case in point.

The title of our conference is "Management Education in a Changing World; Are We Ready for the Challenge?" Naturally, the answer is "No". We are never ready because we are confronted with a continuously changing environment. The right question is whether we know enough about the world, and particularly about the business world. Are our faculty professional enough? Are we flexible enough and open to new knowledge and new methodologies? Are we willing to cooperate with others and set up new partnerships in order to serve our customers better? These are the issues that our conference will deal with.

I am convinced that our partners from Caucasus University, Caucasus School of Business have prepared everything to make this conference a great suc-

cess. It is a rare occasion to arrive at an airport at three in the morning and see the president of the business school waiting for you there in case you need some help. This hospitality makes CEEMAN different from other associations and makes us feel like a large family. I am sure that the latest members will be received as warmly as ever before.

I wish you a great stay in this beautiful country and a lot of useful learning, reflection, and motivation for continuous improvement of the quality of management education in every respect. I hope you will build new partnerships and friendships.

**Kakha Shengelia, President of
Caucasus University, Georgia**

Ladies and gentlemen,

We are happy to have you here with us. I am happy because we have been trying for years to get Tbilisi on CEEMAN's agenda. I am also happy because it is my birthday today.

I am thankful to Danica Purg and I would also like to thank Dimitri Gvindadze, the Georgian minister of finance, for being with us today. He is going to talk about the past, present and future of this country.

As the host of this event, I am very pleased to open this CEEMAN conference on the challenges of management education in a changing world. Our institution is the first Caucasian member of the CEEMAN family. We would like to contribute to the building of links between schools in Europe and worldwide.

As the president of Caucasus University - which is one of the leading educational institutions in the region - I would like to say a couple of words about us. The university was founded in 1998 with an USAID grant as the Caucasus School of Business. It became a fully-fledged university in 2004. As of today, we have more than 4,000 students in seven schools. We have partners that participate with us in double-degree programs in 64 countries throughout the world.

I would like to thank you all for coming, especially our neighbors - Armenians, Azeris, Turks, Russians, and Iranians. Once Danica told me that unless we got the Russians on our side, Georgia could never be a host to a CEEMAN conference. Therefore, I extend my special gratitude to the Russian delegates at this conference. All of our neighbors will enjoy our hospitality and we will make them all feel at home. We would also like them to feel part of our success because it is also their success.

I hope that the implications of this conference will reach far beyond the academic and professional business domain in which it is set. I hope that it is going to be an element of our integration to the European Union and of the bright future of this beautiful country.

Last but not least, I want to thank my team for making this happen. Thank you, Danica, once again because we owe this honor to you.





**Ramaz Nikolaishvili, Minister of
Regional Development and
Infrastructure of Georgia**

I am very happy to have been invited to speak at this conference. These three days are an excellent opportunity to learn about reforms in Georgia and compare the situation in the past with what has been achieved by now.

Thank you very much for coming to Georgia. The minister of finance, who is going to speak right after me, will tell you that there are many important projects going on in our country. The experience of your educational centers is very important. I hope that this is a good start of a future cooperation because many people will share their experiences during these three days.

Our government works around the clock in order to achieve a breakthrough in the economy. Because we have to keep in mind the environment, the international situation, and many other factors, all ministries are involved in the reform process. My ministry is just one of them.

Many international institutions have evaluated the developments in Georgia positively. Georgia is considered an easy country for doing business. Our war on corruption has been particularly successful. As a result of all our efforts, our country has become very attractive for business. Our educational centers are making a great contribution by producing young new managers. We work closely with those centers. For instance, students of the Caucasus University can obtain practical experience at our ministry and several of them are already working in the field of economic infrastructure. My own daughter decided to become a student of the Caucasus University; today is her first day as a student.

Nowadays, Georgia is a big construction platform. We have 63 municipalities and we have construction work everywhere. We want to bring Georgia to a higher level. For instance, we have 7,000 km of roads and this year we managed to repair 1,000 km of them. This is a lot even for a highly developed country. As a result, all regional centers now have good-quality roads. If you travel in Georgia, you cannot fail to notice that.

We are also developing our railroad system together with our Azeri and Turkish friends; we are connecting our railroads. We are building new highways as well as a new parliament building. In the past few years, we have been creating tourist infrastructure. We are developing communication links, water supply and everything that is needed.

We are working on a regional development strategy for 2010-2017 together with our European partners. We have approved a mid-term plan for the country's development and have found that we have all necessary preconditions, especially a sufficient supply of people who have studied at business schools.

Georgia has a young government and we are proud of it. We think that this trend should continue. We need to employ a greater number of young men and women and give them an opportunity to contribute to the development of this country. Therefore, I must stress the function of educational institutions like our host today. They boost the country's development by placing the emphasis where it should be. They have great experience and they are willing to share it. Our government, and my ministry in particular, considers this conference very important. We will study the conclusions that you arrive at because we are convinced that this is not an event for its own sake but something that will produce practical results.

I am happy that this conference is so well attended, not only by Georgians and people from neighboring nations but also by citizens of many countries across the world. I want to thank all of you for coming. I am sure your time in Georgia will be interesting and useful. Should you have any questions that we can address, my ministry and myself would be happy to answer them. I would be glad to be your personal host at my ministry. Please contact me directly in case you would like to ask something as I consider this conference extremely important; as I said, your experience will be very useful to us.

We are happy that this conference is finally taking place in Georgia and we are confident that it is not going to be the last one. Enjoy your stay and we hope to see you again in the future. When you return, you will witness the progress that has become achieved in the meantime. Thank you very much. I wish you a lot of success.

Georgia - Past, Present, Future



Dimitri Gvindadze, Minister of Finance, Georgia

I am very glad to see you all here. It is a very important occasion for me personally. Some seven years ago, I was a lecturer at the School of Business of the Caucasus University and I can attest to the good quality of the education that they provide. I am happy that I have this opportunity to talk to you today

because I think it is very important to exchange perspectives with people like you. We live in a globalizing world. Things are changing fast. Business schools have done a good job staying abreast of these changes although sometimes things are beyond our control. Business education today is as important as ever.

My presentation starts with the Rose Revolution in 2003. It will cover the period from that time to the present and will include some forecasts for the future. I am going to talk about structural reforms and macro-economic developments but I would also like to dwell on the key principles that we subscribe to.

Our decision making is based on the principle of economic freedom. The financial and economic convulsions across the world have made people ponder questions such as whether a Keynesian approach is preferable to a libertarian approach. A lot of empirical evidence has been marshalled in to demonstrate what is good or bad for the economy. Nevertheless, there is not a single country that is very conservative in the management of its fiscal accounts and its bank sector but is not a prosperous country. Therefore, we are trying to make sure that we are not driven by the developments that are going on at the moment.

We have impartial assessments of our economy, being rated by all three leading rating agencies: B+ by Standard and Poor (outlook rated positive in March 2011), B+ by Fitch (outlook rated positive in March 2011), and Ba3 by Moody's (outlook rated stable in 2010). This means that the outlook for Georgia is bright on the condition that we continue with the same fiscal policy and same supervision as hitherto. This is quite positive, given the bad backdrop against which we are performing.

Our economy contracted in 2009 at the time of the global credit crunch. The scale of the contraction was -3.4 percent. Fortunately, this is a lot less than in some other countries in the broad region which experienced double-digit contraction. In 2010, our growth exceeded 6 percent and, according to a very conservative forecast for 2011, the economy will grow by 5.5 percent. There is a consensus on this between our government and the International Monetary Fund but we believe that we can outperform this forecast by a good margin.

We have an even distribution of the different components of our gross domestic product due to the fact that we are not a natural gas or oil exporting economy. The composition of the country's nominal GDP in 2010 was as follows:

- Industry - 16.9 percent
- Trade - 16.6 percent
- Public administration - 16 percent
- Transport and communication - 11.6 percent
- Agriculture - 8.4 percent
- Healthcare and social assistance - 6.6 percent
- Construction - 6.6 percent
- Education - 4.5 percent
- Other - 15.7 percent

The first financial crisis brought shockwaves to Georgia and scared investors. We had to use a considerable fiscal stimulus to contain the contraction and lay down the foundation for growth in the future. Nevertheless, our fiscal deficit reached 9.2 percent of GDP in 2009 after having steadily grown in the previous years. This trend was subsequently reversed. We had a deficit of 6.7 percent in 2010 and probably 3.7 percent this year. We expect a deficit of 3.0 percent in 2012 and 2.3 in 2013. The exact figures of course depend on external factors such as the economic crisis in the euro zone. As far as I know, this is one of the fastest fiscal consolidations in the region.

The capital expenditure has been very stable, fluctuating at about 20 percent of the overall expenditure, which is a very high level compared to many other countries. That is what I had in mind when I said that the fiscal stimulus in 2009 laid down the foundation for the economic growth in the future. That groundwork came in a variety of different forms, such as building up highways and connecting villages with cities. Also high-voltage power transmission lines were built and investments were made in the water sector.

Let me tell you how Georgia finances its budget deficit. The bulk of the deficit financing comes from the international financial institutions. In fact we have phased out some of the financial support that we were getting during the crisis and switched back to our pre-crisis level. This means that our exposure to refinancing risks is zero.

Relative to other countries in the broader region, Georgia's percentages of budget expenditures on compensation of employees and social benefits are low. In terms of goods and services, we occupy an intermediate position. On the other hand, Georgia has a higher percentage of capital expenditures. Our operating balance - which is current revenues minus current expenditures - is plus 4 percent. This means that we have a surplus economy in that sense. However, we have high capital expenditure, which explains we have a budget deficit.

Our current account deficit peaked in 2008 but has fallen since that time and should be just below 10 percent this year. It is very difficult to make accurate predictions because of the turmoil in the Euro zone. One of the reasons for the better balancing of the current account nowadays is that a good number of tourists are coming to the country. This is the key service that we are exporting. Also, remittances during the crisis were stable, following an upward trend thereafter.

The trade structure is quite diversified. There is no single strategic country on which we are dependent in terms of either exports or imports. The most important export partners in 2010 were Azerbaijan, Turkey, the United States, and Armenia. Some other export countries are Ukraine, Canada, Bulgaria, Kazakhstan, Russia, Spain, Germany, Romania, and the United Arab Emirates. The leading importing countries were Turkey, Ukraine, Azerbaijan and China, followed by Germany, Russia, the United States, the United Arab Emirates, Romania, Bulgaria, the Netherlands, and Kazakhstan. It is noteworthy that the European Union countries jointly accounted for 28 percent of our imports.

In 2010, the leading export product was iron and steel, accounting for 26.3 percent of the total. It was followed by vehicles and beverages. In addition, Georgia exports gems and precious stones, ores, edible fruits and nuts, fertilizers, fuel, copper, pharmaceuticals, aircraft parts, live animals, and machinery and appliances. Georgia imports mainly fuel, followed by vehicles, machinery and appliances, electrical equipment, pharmaceutical products, iron and steel, cereals, plastics, items of iron and steels, paper and paperboards, tobacco, sugar and furniture.

We are holding one of the leading positions in the region in terms of lack of trade barriers and unnecessary red tape. We have a free trade agreement with Turkey and have been one of the two beneficiaries of the EU GSP+ Scheme in the CIS since 2006, granting local companies the right to export 7,200 categories of goods to the European Union duty-free. We are now discussing an association agreement with the European Union. We hope to be able to start official negotiations some time later this year.

Georgia has been a member of the World Trade Organization since 2000. We have had a simplified customs regime since 2006 and a new customs code became effective in 2007. The customs code was combined with the existing tax code in 2010.

In the wake of the war with Russia, there was an international donors' conference in Brussels at which the international community pledged USD 25 billion for Georgia for public and private sector operations with the aim of boosting the Georgian economy in the short term and laying the foundation for long-term growth. However it is very difficult to gauge the scale of the private sector operations upfront as it depends on the existence of bankable projects. To be honest with you, we have had very many conferences here, typically resulting in partial delivery of what has been pledged or in no delivery at all. But in the 20 years that I have been in this business, the Brussels donors' conference was the most successful one for Georgia.

As of 31 August 2011, approximately USD 2.2 billion of this assistance has been disbursed.

The government expects that by the end of 2011 Georgia will have entered into firm commitments with respect to the amounts pledged at the Brussels conference, which will provide stimulus funding to the Georgian economy. It is important to note that this will be done without crowding out the fiscal space.

The public debt situation is quite favorable. The debt indicators are below the prudential thresholds. In terms of the external public debt to GDP ratio, we reached 33.6 percent in 2010 but the figure is now falling. The reason for that is the reasonable pace of disbursement of funds. When you implement infrastructure schemes, you do not implement the full amount upfront but follow a piecemeal schedule tailored to the dynamic of the projects. Another factor is that the ratio of nominal GDP growth to the real GDP growth has rebounded in recent years and has reached 6.5 percent. In that sense, we are being helped by the denominator effect.

We issued our first Eurobonds in 2008, supposed to mature in 2013, followed by another emission in 2011 that is scheduled to mature in 2021. The price of the first bonds fell initially, then rose, and has since then maintained a more or less steady level. The prices of the subsequent ones have been relatively flat so far. This is similar to what is normal in a stable economy inside the European Union. This is very important because it represents an impartial yardstick for measuring the sustainability of a country's economy.

The portfolio average weighted interest rate as of the end of August 2011 was 2.00 percent, which is very low. There is an affordable public debt stock and very low interest rate on external public debt. Interest rate risk has been brought to a minimum. The government's external debt amortization profile can be characterized as a flat trajectory and easily affordable annual repayment volumes. We are not exposed to LIBOR fluctuations, either.

I am not going to dwell long on the domestic market debt. I just want to draw your attention to the fact that yields have been going down from a peak of 15.6 percent in September 2010 to 10.8 in August 2011 for the two-year T-notes coupon rates; a similar fall has been observed in the trend of the five-year T-bond coupon rates.

The Central Bank's gross foreign exchange reserves are at an all-times high. There has been some inflationary pressure recently, coming from the export of services. The Central Bank adopted an inflation targeting regime, trying to smooth out the excessive fluctuations. The currency has been free-floating, yet remaining quite stable in recent months.

The banking sector has attracted diverse international interests. Some of the financial institutions that have entered the Georgian market are ProCredit Bank, HSBC, Halyk Bank, Commerzbank, Bank Turan Alem, Dhabi Group, JP Morgan, and many more.

Georgia has a very resilient banking sector. It represents only a very moderate contingent liability of the sovereign. At the end of December 2010, the ratio of assets to nominal GDP was 50.8 percent. The sector has been entirely privately owned since 1995 and there have been no restrictions on foreign ownership of banks. The sector is well capitalized, with an average Basel I capital adequacy ratio of 24 percent, the local standard being 18 percent. The total assets of the banking sector have been rising. Deposits have increased, reaching a pre-crisis level whereas the percentage of non-performing loans has been stable below 7 percent.

The capital adequacy ratio is probably the key measure of the sustainability of the banking sector. It has been in the vicinity of 16-18 percent, which is pretty good. Profitability, measured as return on equity, has recovered after a slump from September 2008 to the end of 2009. The non-deposit funding structure is also favorable. Equity accounts for 40 percent, followed by borrowing from international financial institutions, which amounts to 40 percent. Another 8 percent comes from borrowing from non-resident parent banks, 5 percent is provided by domestic borrowing, and another 6 percent comes from private external source. This is a resilient structure that is not exposed to the effect of volatile capital.

Georgia's energy imports have a diversified structure. In 2005, all natural gas supplies came from Russia. Now, that country accounts for only 6 percent and more than 50 percent comes from Azerbaijan. Another 13 percent is provided by Armenia.

The geographic distribution of petroleum and oil imports is also diversified. Azerbaijan provides 45 percent, followed by Romania, Bulgaria, Turkmenistan, Greece, Italy, and Russia.

The same diversification sector is observed in the agricultural sector. Our traditional products that provide a competitive edge are mineral water and wine. In 2005, before the Russian embargo, 79 percent of our mineral water exports went to Russia. But after the embargo, we reduced that dependence on Russia. Now, 54 percent of the exported water goes to Ukraine. The rest is exported to Lithuania, Kazakhstan, Azerbaijan, Turkmenistan, and other countries. A similar switch occurred in the export of wines.

As I said previously, the export of services has resulted in an improvement of our current account. What I mean by this is primarily the export of tourism. Georgia is increasingly becoming a global tourist destination. It is now a tourism hub in the Caucasus. Arrivals increased from less than half a million in 2000 to 2.5 million in 2010. This effect was achieved through the domestic road interconnectedness, compounded by the vertical approach to Georgia's traditional tourism centers (Tbilisi, Mtskheta, Batumi, Bakuriani, Gudari) and the discovery of new promising destinations (Svaneti, Anaklia, Signaghi, Kvareli). This can provide a tremendous lasting boost to sea and mountain tourism, ski tourism, as well as to wine tours and green tourism. Georgia has various sites inscribed on the UNESCO World Heritage List.

Georgia has cut the number of taxes that it levies to six. All these taxes are flat. Currently, the rates of the main taxes are as follows:

- Value-added tax - 18 percent
- Income tax - 20 percent
- Corporate income tax - 15 percent
- Dividend and interest income tax - 5 percent

As you see, we have abolished the social tax, effectively merging it with the income tax. There are no bracket exceptions or any loopholes for our taxes.

There is no payroll tax, social insurance tax, capital gains tax, wealth tax, inheritance tax or duty stamp. Foreign-source revenues of individuals are fully exempted from taxation. The tax rate reduction timetable was further accelerated in 2008. According to the 2009 Tax Misery & Reform Index released by *Forbes Business* and *Financial News*, Georgia is the fourth least tax-burdened country in the world, after Qatar, the United Arab Emirates and Hong Kong. We have done this because we want to make business in Georgia as easy as possible for local and foreign businessmen. Not only are our taxation rates low but we also have a very simplified tax system; filing tax declarations is straightforward and easy.

Our government subscribes to some fundamental policies. We believe in the rule of law and property rights and we think that the state should have a minimal fiscal footprint. We also believe in few, low, and flat taxes, a minimal social security burden on business. Our target is single-digit inflation. We are striving to promote free trade, without any bureaucratic hurdles.

The customs system in this country went through a major overhaul. We fired a lot of people and got rid of the corruption. This may sound bombastic but we have managed to achieve it. After firing many employees, we hired new ones, put them in glass offices, and made sure that they were well paid. We offered carrots and sticks so that they could do their job properly.

We want a flexible labor market with minimal state interference in employer-employee relations. We have managed to abolish the ossification that we had in that respect. Now, our labor legislation is flexible. This factor is contributing to the swift rise of the economy.

We are aiming for limited government because an oversized administration puts a burden on society. We do not want to spend more than 30 percent of the national income on government. Beyond that limit, business starts getting stifled. It is easy to be profligate in doling out pensions and benefits but history is replete with bad examples of economies that have run aground for that reason. We do not want that to happen to this country. Therefore, we have imposed something like a straightjacket on the government in order to curb its spending impulses. Our consolidated budget deficit to GDP ratio must not be in excess of 3 percent. This is a rule that will come into effect as of 2013. Also, the ratio of public debt to GDP must not exceed 60 percent.

We are committed to deep deregulation, dramatically minimized and simplified licensing, and aggressive privatization. State assistance to the poor should be means-tested and focused. The civil sector should be lean and efficient, providing value for the taxpayers' money.

Since 1995, there have been no restrictions on the convertibility of the currency or on the repatriation of capital and profit. We have a ban on state ownership of banks and on state imposition of price controls. In effect, we have had no state-owned banks since 1995 and no price controls since the early 1990s. There is also a ban on the increase of the number of licenses and permits and a ban on the increase of state or independent regulators. Currently, independent regulators exist only in financial services, communications and utilities.

We have a means-tested social assistance system. Assistance is rendered through vouchers and other tools that empower citizens and give them choice in healthcare, education and other sectors, rather than direct funding of state-owned service providers.

It is important that we have a so-called principle of universality of the budget. This means that only the central government is allowed to borrow money. This is important because a lot of the trouble that we observe in various countries stems from their devolution of fiscal power and borrowing authority.

Finally, I want to point out that, according to the World Bank, Georgia has taken enormous strides forward in terms of improving its business climate. It is the leading country on the World Bank index of cumulative change in Doing Business indicators between 2006 and 2011.

Some of you may wonder if our reforms are sustainable. I am confident that they are. We have built new institutions that are here to stay. Our reforms have created a new and irreversible institutional culture. We did not root out corruption by means of sticks and carrots only. We did it also by empower-

ing people who do not subscribe to it. They have created an environment in which you cannot steal. This is what will sustain the momentum.

Question from the audience: Jean-Pierre Lehmann

Minister, I would like to congratulate you on these remarkably favorable indicators. Could you tell us also something about the level of unemployment, poverty and social inequality, as well as the education level, as potential challenges for the future?

Dimitri Gvindadze

Unemployment rose during the crisis period. It was not associated with damage to the infrastructure but with damage to the banking sector and the resulting lack of business confidence. It is something invisible, yet powerful. We tried to address this issue by a series of measures. To be honest, the unemployment statistics vary. Some say it is in the vicinity of 10 percent, whereas others estimate it at 15 percent. It depends on the methodology that you apply. If you ask a taxi driver who has a degree in engineering, he will tell you that he is unemployed simply because he is not working as an engineer. He is unemployed in his own perception. Therefore, it is impossible to come up with a uniform approach to the study of unemployment.

As for pensions, we recently raised the minimum amount to 100 laris. We realize that this is very low but this is what I meant when I said that profligate social policy should not derail the economy. On the bright side, we have a very easily manageable pension system given the fiscal setup. I do not think that the pay-as-you-go system can work but if you attempt to introduce mandatory personal contributions, you need a very long track record of success. You need investment opportunities and I am not sure that we have them. Therefore, we are going to continue with our universal pension system.

On the demographic side, I do not have exact figures at the moment. I can only tell you that we have a population of about 4.3 million and that it is quite stable.

Question from the audience: Danica Purg

Minister, I would like to ask you what your dream is. How do you see Georgia 10 years from now?

Dimitri Gvindadze

I definitely want to see Georgia as a member of the European Union. This is not only a political dream; it also has a cultural element. It is not the dream of the government but of the Georgian people. Go to the countryside and ask the farmers where they want to be in 10 years. You will see that there is very strong consensus on our goal of joining the European Union.

Day 2: Focus on Change: The Global and Local Landscape, Business, and Business Education

Conference introduction by the chairperson



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

Good morning, I am very delighted to be here today. This is my first time in Georgia and I am sorry I missed the presentations about this country last night. But I am sure that in the next few days I will have an opportunity to make up for that.

As I was looking through the list of all the participants, I noticed that we have a very esteemed group of leaders, managers, and professors. If you are like me, you are very busy. Many years ago, Henry Mintzberg researched the life of a manager for the purpose of his dissertation. Do you remember what he found? The book that he wrote on that topic was called *The Nature of Managerial Work*. He found that a manager's days, our days, are so full of meetings and back to back conferences that we rarely have time to sit back and reflect. And when you think about all the challenges that we face as leaders in all of our countries - in fact, we need that time for reflection. We need time to think about how the world is changing and what we, as leaders, can do to make sure that our schools, institutions, and countries are rising to those challenges.

So, my goal as conference chairperson will be to try and give us all some time for reflection during this conference. We will be listening to close to 25 different speakers over the next two days. I hope that we will not just listen to them and applaud them, even though they are illustrious men and women and I am looking forward to their presentations. I hope that each of us will be reflecting and contributing.

May I please ask you to join me in reviewing the conference program that you have in front of you?

The conference was opened last night with a wonderful keynote address by the Minister of Finance of Georgia who talked about the past, present and future of this country. This morning, we are going to be looking at the global and local landscapes for business education. We start looking at Georgia and the Caucasus because one thing that CEEMAN is good at is that whenever we do something we like to consider the local context and draw a parallel between this context and the challenges that we are facing in our own environments.

After discussing Georgia, we have a panel on emerging markets. What is the change in the business landscape there? In the afternoon, we have to tackle a broader issue: the changes in the global landscape that are influencing business education. This will bring things closer to home and what we are doing as business educators.

Then, we have two parallel panels. One is about how businesses are searching for new learning and educational inputs. The other is on business education in search of new learning partnerships with business. After that, we are going to have a great dinner and enjoy the Georgian hospitality.

Tomorrow, we will look even more closely at our role as business educators. We have three different sessions, examining three different aspects of what we do. The first question is whether we teach what our customers want. The second panel is on whether management research is appropriately impacting practitioners, teaching and new theory development. Finally, we turn to the critical question of whether we have the faculty that we need to meet the future.

During the conference I would like all of you to reflect about two things. The first is an issue that you are facing at your own institution and you hope to be able to find an answer to during this conference. The second is what you would like to bring to this conference. What is it that you, as a business leader, a professor, or a dean have done that you are particularly proud of that you would like to share with us?

Now I would like to invite the first speakers to take the floor.

Business Opportunities and Challenges in Georgia and the Caucasus

Introduction

Kakha Shengelia, President of Caucasus University, Georgia

After the wonderful speakers last night, we have more this morning. We had two ministers last night and we have another one today, albeit a former one. He was involved in the economic reforms in this country and is now chairman of the Chamber of Commerce and Industry of Georgia, chairman of the Supervisory Board of GLC at Georgian Lottery Company, chairman of the Supervisory Board at Georgian Post Ltd., and managing director of Willsfort LLC, Georgia. He is our first speaker. He is going to speak about reform in Georgia and the country's future. Mr Kakha Baidurashvili, the floor is yours.



Kakha Baidurashvili, President of Georgian Chamber of Commerce and Industry, Chairman of the Supervisory Board of GLC at Georgian Lottery Company, Chairman of the Supervisory Board at Georgian Post Ltd., Managing Director at Willsfort LLC, Georgia

Thank you very much for organizing this conference and inviting me to participate. I am glad that I have this opportunity

to discuss the challenges and opportunities that this country is facing. I will try to give you a brief overview of the Georgian economy as it has a strong impact on society at large but I would also like to look at some other reports concerning what can facilitate business growth in this country.

You must have heard about the Rose Revolution in 2003. Subsequently, in 2004, we initiated some drastic reforms, especially in the economy. We achieved very high growth, mainly because we had one of the highest foreign direct investment rates in the world. As a result, GDP growth reached double-digit figures. This lasted until the financial crisis or, more precisely, until the war with Russia, because - as far as Georgia is concerned, the crisis came right after that war. The post-war situation was compounded by the world financial crisis. We lived through very difficult times in 2009 and 2010 when the economy contracted about 4 percent. Bad as the situation was, it was one of the best performances in our neighborhood. Oil-rich economies, like Russia's, contracted far more than ours.

In 2010, the economy bounced back and we had a growth rate of 6 percent, which is very robust. We hope that this year we will repeat that success. As for the following years, we expect some slight increases.

In our case, the most beneficial effect was produced by the international financial institutes. We received significant funds to repair the damage that we suffered during the war. This helped us overcome some of the problems that were caused by the international crisis.

Our debt indicators are favorable. Anything below 50 percent of GDP is quite safe and we are considerably below that threshold. The debt repayment schedule is sound and is not overburdening the country. This is important because despite the war and the financial crisis, the government has managed to reign in the debt.

The debt portfolio is 21 percent domestic and 79 percent external. The foreign debt comes mostly from the multilateral institutions, which means that the interest rate is very low. The average rate on the foreign debt is only 2 percent, whereas for Greece that rate may be 7 percent.

The budget deficit is also a hot topic in many countries nowadays. We tried to introduce a government stimulus in the real economy. Before the crisis, the construction sector was one of the main drivers of the economy and we did not want it to be completely ruined. As of 2010, the budget deficit started falling and this trend is expected to continue. Three years after the start of the crisis, this is one of the best achievements across comparable countries.

The financial sector is very resilient. The banks have only very moderate contingent liability of the sovereign. The ratio of assets to nominal GDP is 50.8 percent as of end-December 2010. The banking sector has been entirely privately owned since 1995 and there are no restrictions on foreign ownership of banks. The sector is well-capitalized with average Basel I capital adequacy ratio of 24 percent.

The percentage of non-performing loans of total loans is only 7 percent, which compares very favorably to the situation across the region. During the war and the crisis we had a wide gap between loans and deposits but it was subsequently narrowed. By now, the banks have completely recovered. Meanwhile, the amount of bank deposits has grown to pre-crisis levels.

After the war with Russia, we experienced a boycott of Georgian goods in that country. Gradually, they imposed a full-scale blockade on our economy. A market of 140 million consumers was closed to us.

In 2000, after 10 years of independence, we became a member of the World Trade Organization. In 2005, we changed and simplified our tax code and almost did away with the so-called customs tax. We do not have any trade restrictions in terms of trade barriers, unlike many other countries in our region. We enjoy a preferential trade regime with Europe and, as a result, exports to Europe are growing. This means that the European countries are replacing the Russian market.

Our exports and imports are diversified, both in terms of products and geographic location. Combined with the lack of customs duties and the preferential trade regimes, that helped a lot during the crisis.

Georgia has become a reliable energy transport hub. This is important because energy security is a key issue in any business and many businesses are run by energy. That is why we have a strategic focus on this sector. In 2005, when we were almost completely dependent on Russia for our natural gas supplies, the two Russian gas pipelines exploded one after the other. This happened in the middle of winter, when there was no other source of heat. Back then, Georgia had no connections with any gas-exporting countries other than Russia. That taught us a very good lesson. We learned that we cannot rely on a single exporter, no matter who it is. We started negotiations with all surrounding countries, and mainly with Azerbaijan. By now we have four pipelines across our territory which means that we are getting some free oil and gas for that service.

One of these is a pipeline that starts at the Sangachal Terminal in Azerbaijan. It runs across Georgia and Turkey and ends at the Mediterranean town of Ceyhan. Another one goes from Sangachal to the Georgian town of Supsa,

on the Black Sea coast. A third line - the Nabucco pipeline - is still under construction. It is supposed to cross Georgia and Turkey and carry natural gas through the Black Sea to Central Europe.

Since Georgia is not a natural gas producer, it was the only country in the region that was not affected by the natural gas crisis in 2009. It is also the only exporter of renewable energy in the region. The energy sector has improved tremendously after suffering to the point that there were towns that had no electrical power at all. Some children grew up in that situation and believed it was normal. One of the factors behind this was the huge corruption in the energy sector. Then, of course, we tried to rehabilitate the older power generation and introduce some regulation concerning energy distribution. It took us only three years to stabilize the market. In 2007, Georgia became a net exporter of electrical power in our region. Interestingly, Georgia kept exporting electricity to Russia even during the war. The reason for that is that southern Russia does not have a good grid connecting that region to the rest of the country. Therefore, the Krasnodar region receives electricity mainly from Georgia.

After becoming an energy exporter, we decided to expand our market. We entered negotiations with Turkey. We have already reached an agreement under which the construction of a high voltage line will be provided by Georgia. Once it is in place, the grid will allow us to export electricity to Iraq and Syria, and - most importantly - to European Union markets. Our government is already conducting negotiations with two Balkan countries on the export of electrical power to them. As a result of this, the energy sector is attracting foreign direct investment and many countries are active on our hydro power market. Georgia has significant untapped hydro resources; only an estimated 18 percent of the country's hydro potential is currently being utilized. Naturally, some Turkish companies are involved as they want to export energy to Turkey. This is interesting because Turkey also has rivers. The reason that they are coming here is our deregulation, especially in the energy sector, as well as the low taxation regime.

Georgia's energy imports are quite diversified. Until 2005 all natural gas supplies came from Russia. We had no energy security at all. Now, that country accounts for only 6 percent whereas more than 50 percent is provided by Azerbaijan and another 13 percent is from Armenia. For some countries it is unimaginable to survive without Russian natural gas, but we have shown that it is possible.

The geographic distribution of petroleum and oil imports is also diversified. Azerbaijan provides 45 percent, followed by Romania, Bulgaria, Turkmenistan, Greece, Italy, and Russia.

You probably know that our main agricultural products are wine, mineral water, nuts, citruses and suchlike. Before the Russian embargo, Russia was our main export destination, taking 80-90 percent of all our wine and water exports. After the embargo this changed; now it is Ukraine that takes about half the wine and water that Georgia exports. In addition to that, we export to plenty other European countries. Never in our history have we had so many European partners. Efforts are also being made to penetrate the Indian and East Asians markets. In a sense, the Russian embargo was a blessing in disguise because it provided an incentive to our businessmen to explore new opportunities and seek new markets. Moreover, the revenues from Georgian wine at these new markets are considerably higher than from the Russian market.

The tourism sector also benefited from our reforms. The first thing that we are trying to sell to tourists, regardless of their status, is our rule of law. Crime rates are very low and there is a very insignificant likelihood that somebody will get victimized. According to a Gallup study, Georgia has a lower crime rate than any European country other than Iceland but Tbilisi has a lower crime rate than Reykjavik which makes our capital safer than any European capital. This is one of the things that attract tourists. The other one is infrastructure.

We believe in a small government that makes sensible investments and does not overtax the businesses so that they can reinvest their profits. We invested a lot in core infrastructure, such as roads, water, sanitation, and electricity. That is one of the reasons that business boomed in Georgia, particularly the tourism business. The year 2009 saw a 35 percent increase in tourist arrivals

in Georgia. In 2010, that figure was 45 percent. This was followed by another increase of 43 percent in the first quarter of 2011. At this point, tourism is one of our main economic drivers, after power generation and agriculture. We also have some small-scale manufacturing.

The Radisson hotel where this conference is taking place was opened in 2010. Another Radisson opened in Batumi this summer. Many other new hotels are under construction and some are almost finished. For example, Anaklia used to be just a stretch of land along the Black Sea coast without a single house. Now we have three big hotels there.

Let me tell you a little more about what the government is doing to create a favorable business environment and make it possible to invest in Georgia. Before 2004, taxation was messy. I would not even call it taxation. There was something like a tax code developed in 1988 by the UNDP. It was translated at Moscow University into different languages of the then Soviet Union. Then, it was brought to Tbilisi and became the tax code of Georgia. This was fine because it served the interests of the then government, which was totally corrupt. The scale of corruption was tremendous; it was unlike any other country. Corruption was everywhere: in the customs offices, in the police, in the army, in the civil registry, in the tax system.

We started the war on corruption by reshuffling all institutions. A good example is the Ministry of Internal Affairs. We dismissed 35,000 policemen in one day. For a whole month, we did not have a single traffic policeman. Amazingly, there were fewer accidents during that month than in the previous months when the 35,000 policemen were on their jobs. This is a harsh way to combat corruption but it works. Remove the corrupt people and corruption will disappear. Of course, you also have to deal with the whole institution or else the corruption will come back. We changed the hiring system and started hiring more motivated young people who had finished high school. We also improved the training system and provided continuous training.

A lot of people nowadays approach me and ask me to explain the complex issues surrounding the war on corruption. There are no complex issues. It only takes political will. In the case of Georgia, it was a decision made by 4.5 million people because they were fed up with the pervasive corruption and gave the government a clear mandate.

Another reform that we implemented was the increase of the salaries of the employees in the government sector. Of course, to do that you need to downsize that sector first. Then, you will have sufficient funds to motivate those who have remained. You also have to implement internal audits. As a result, you will have no corruption.

We used to have very high taxes. The personal income tax was 25 percent. We also paid 33 percent for social security. There was VAT and a special tax for transportation. Altogether, we paid 16 different taxes. We abolished most of them. Now we have VAT, personal income tax, corporate income tax, and a property tax. That is all. We have also cut the tax rates.

At the beginning of 2004, our budget was 400 million laris and the government was collecting only 16 percent of the GDP through taxes. Now our budget is 7 billion laris and we collect 26 percent of the GDP. The so-called "corruption tax" disappeared and life became much easier for the ordinary citizens. You need not wonder why I advertise our tax system so much. Companies like it and come here to do business.

We have made strong efforts to avoid double taxation with many countries. This helps when either of the two countries has a significantly lower tax rate.

Compared to most other countries in the world, our tax rate is lower. Only some of the emirates and Hong Kong have lower taxes.

Lowering the tax rate is just one way to improve tax collection. It is also necessary to simplify the process. We have introduced electronic filing, which enables companies to submit their declaration by the Internet, without visiting the offices of the tax inspectors. This saves money, time, and energy. By now, all tax declarations are submitted electronically.

We believe in the rule of law, property rights, and a minimal state fiscal footprint. What we mean by the latter is few low and flat taxes. We also believe in a minimal social security burden on businesses. At the moment, this burden

is zero because businesses do not pay any social tax. Our debt-to-GDP ratio must never exceed 60 percent.

We also want to have single-digit inflation. We promote free trade and try to create a flexible labor market with minimal state interference in employer-employee relations. It has been internationally recognized that our labor code is the most liberal in the world. We are aiming for limited government. This means that the government should not spend more than 30 percent of the country's GDP. Also, it should not interfere in business sectors such as banking. There is not a single state-owned bank in Georgia nowadays. We are committed to deep deregulation, dramatically minimized and simplified licensing, and aggressive privatization. State assistance to the poor should be means-tested and focused.

These government principles are enshrined in our Economic Freedom Act. We have cemented them in legal terms by passing a law according to which it takes a 75 percent parliamentary majority to change them.

People always ask why we speak of aggressive privatization rather than smart and clever privatization. In our view, it is not aggressive it can be smart and clever. If you keep public assets in your hands for too long, at some point you will start liking it. You end up thinking that somebody is performing very well. This may be true but in that case you do not realize that you are not allowing others to perform well.

As for the means-tested benefits system, I have to tell you that we provide all kinds of benefits to the poor. For instance, health care is completely free for them and we provide them with special vouchers for education. We do not have any public schools in the sense that they do not receive a cent from the budget. We give the citizens school vouchers and they are free to choose between public and private schools.

According to a 2011 World Bank report, Georgia is the world's top reformer over the past five years. Also, we rank very favorably in terms of ease of doing business and economic freedom. We are ahead of most core European and east European countries in that respect. These rankings are trustworthy because they are compiled by the World Bank and the Heritage Foundation.

It is also interesting to look at the rankings of Transparency International, which measures corruption. In terms of bribe payment in the past 12 months, Georgia has a much more favorable score than most European countries: only 3 percent admit that they have paid bribes versus 5 in Spain, 7 in France, 9 in Austria and 15 in Poland. Also, Georgia is a world leader in terms of perception of the degree by which corruption has fallen.

Another indicator of the economic opportunities that are available in Georgia are the Investing Across Borders Indices of the World Bank, indicating the degree of foreign direct investment regulation. A score of 100 means no restriction at all. We have been assigned that score in mining, oil and gas, agriculture and forestry, light manufacturing, telecommunications, electricity generation, banking, insurance, transport, media, construction, tourism, retail, health care, and waste management. On all of these indicators, Georgia is a world leader.

According to the World Bank, Georgia is one of the most open countries to foreign equity ownership as measured by the Investing Across Sectors indicators. All of the 33 sectors covered by the indicators are fully open to foreign investment. There are neither sectors with monopolistic or oligopolistic market structures nor any perceived difficulties in obtaining any required operating.

If you ask me what challenges the Georgian economy is facing, I would naturally start with the Russian problem. But that is not all. We still do not have a widespread managerial culture in our enterprises. Another problem is access to capital, both bank and non-bank capital. First of all, we need to boost domestic savings and then transform them into investment. Unfortunately, the domestic investment rate is very low. So far we have relied on foreign direct investment; that was our major source of growth. That explains why we reached 12 percent growth in 2007. The total amount of investment in that year was USD 2 billion. Last year, it was USD 600 million, whereas this year the figure is likely to be one billion.

You may wonder whether other countries will follow us. For example, will the Arab nations embark on the same reform process? I have to tell you that the first months are extremely painful. There will be job losses, salary cuts and other measures that the public does not like at all. However, there is no alternative. There is no other way to make the public system healthier.

A comparison with our neighbors may be misleading because they have completely different economies. For example Azerbaijan's is an oil and natural gas economy. Economies of that type are very different from any other. As for Armenia, I have the impression that they are following in our footsteps. This is simply common sense. I do not think that we did anything that is not common sense.

Fortunately, there is consensus in our society that we have to stay the course. There is no single major political force that is opposed to this course. There is some debate as to what kind of relationship we should have with Russia. But there is very little disagreement concerning the economy. If there is any debate it is about small details, such as whether another USD 10 million should be spent on a particular project or not. Nobody says anything like "We need to increase VAT by 5 percent" or "Let us introduce another 10 regulators". I hope that for the next 10 years, the political spectrum will not change dramatically and the consensus will be maintained.

Panel: Emerging Markets and the Changing Business Landscape

Introduction

Pavlo Sheremeta, President and Institute Senior Fellow, MBOSI - Malaysia Blue Ocean Strategy Institute, Malaysia/Ukraine

It is wonderful to be reunited with the CEEMAN family once again. I would like to start with a short anecdote. As I arrived at the airport last night, a young lady greeted me and asked me if I had been in Georgia before. I told her that this was my second time. She asked me when the first time was. I said it was in 1995. The young lady said that 1995 was the year that she was born.

As Nakiye said, we have an absolutely great panel discussion ahead of us. We have two CEEMAN legends here with us whose presentations are usually so impressive that they keep me inspired for the rest of the year. They will discuss the panel topic, starting with the macro picture and then delving into micro issues, such as corporate strategies.

It is now my great pleasure to introduce Professor Lehmann, Emeritus at IMD, Lausanne. He is also the founder of the Evian Group, which tackles huge global issues.



Jean-Pierre Lehmann, Founder, The Evian Group, Professor Emeritus IMD Lausanne, Switzerland

This is my first time in Georgia but not my first time at a CEEMAN conference. I am a great admirer of this organization and have been at four or five of its conferences. I certainly look forward to future ones as well. I am also a great admirer of the achievements of Danica Purg, whom I met a quarter of a century

ago. It is really amazing what she has accomplished for CEEMAN.

Before I start my presentation, I would like to make some comments on the previous presentations. Those of you who were here last night know that I asked the minister to provide some demographic and social indicators in addition to the economic ones. I did some homework and collected some indicators myself. They complement the economic ones and provide another perspective, throwing light on some challenges.

I feel very strongly about demographics. It is a critical issue for the global economy. Therefore I will be talking a little about the demographics of

the emerging economies and contrast the data with what is going on in Europe.

In 1950, the population of Georgia was 3.5 million. In 1995, it was 5 million. Now it is 4.5 million, expected to be 3.1 million in 2050, and 2.3 million in 2100. This is clearly a case of a declining population and aging - certainly a challenge for the future.

I also inquired about the GINI coefficient which measures socioeconomic inequality. Georgia's GINI is high, meaning high inequality. The country is in-between Mali and Turkmenistan in the world ranking.

Unemployment in Georgia is currently 16.1 percent, whereas youth unemployment is almost twice as high, reaching 30 percent. Also, 31 percent of the population lives below the poverty line.

The reason that I mentioned these social indicators is not that I want to challenge the need for economic reform or question the wisdom of what has been done in this country. I simply want to draw your attention to the existing challenges and ask if the country is ready to address them. The World Economic Forum has identified poverty as the number one risk in the global environment at the moment, the next one being rejection of globalization.

There is a global awareness that capitalism is in a crisis, particularly over the course of the last few years. The question about the sustainability of reform is not only whether the reform is robust but also whether it is socially acceptable. In all of the emerging markets that I go to, the word "inclusion" comes up and is used in the context of "inclusive growth". This is also emphasized by Dilma Rousseff, Brazil's president. The Indian government also understands this and so does the Chinese government. They say that they want to lower growth but make it more inclusive. I think that this issue is something that needs to be fed into a business school's curriculum. Managers need to know how to achieve equitable sustainable growth and inclusive growth. This is different from corporate social responsibility.

Of course, this is not something that only emerging economies should worry about. Youth unemployment in Spain is 46 percent. Half of the Spanish youth have no sense of participation in the economy. As a result, they call themselves "los indignados" - the indignant ones. Some newspaper columnists wonder if this decade will be remembered as a decade of indignation.

The Evian Group is working on what we call Globalization and Inclusive Growth. We look at how states and businesses can work together so that the global economy can be sustained and maintained. There is a risk of isolationism appearing in the United States. There is a feeling that the country is in dire straits as its role of a locomotive of the global economy has decreased considerably.

We are going through alarming times. We are witnessing greater, deeper, and speedier changes than for centuries. But, as we know, challenges beget opportunities since we need to react to the ongoing changes. I do not think that we will ever see a global environment like the one before the transformations began at the end of the last century. Of course, the 2008 events accelerated them quite dynamically.

I spend roughly 70 percent of my time outside Europe, mainly in Asia, from Turkey to Hong Kong. I am convinced that this dynamism is going to be critical. Danica made a good comment yesterday: CEEMAN needs to get global rather than be an East European association. All the things that we can learn from these international experiences can have global implications.

In an article in the *Financial Times* entitled "Asia's Giants on the Move", Martin Wolf described the situation in this way:

"The economic rise of Asia's giants is the most important story of our age. It heralds the end, in the not too distant future, of as much as five centuries of domination by the Europeans and their colonial offshoots".

Nowadays, we talk of emerging economies but we can also speak of submerging economies. How much they will submerge remains to be seen. I do not want to sound too apocalyptic about the United States, Europe and Japan, but we are certainly going to observe a major shift in global economic power. One of the benefits of being as old as I am is that I have seen a

lot in my life. I was a correspondent in Vietnam during the war and I go there nowadays as well. The change that I observe is staggering. It is one of the most entrepreneurial societies in the world. It has a well developed manufacturing sector and a rising middle class. It is still officially a communist state although they have changed their label. They say that their philosophy is no longer Marxism-Leninism but Market Leninism.

As Zheng Bijian put it, the most important strategic choice the Chinese made in the late 1970s was to embrace economic globalization rather than detach themselves from it. It is clear that China is going to be a world leader but what implications will that have? There is a lively debate on that in China itself.

According to Rajiv Kumar, the Chinese miracle is best summed up by observing that in 1978 Deng said that China could not do without global capitalism and that three decades later it is clear that global capitalism cannot do without China! At the Bank of China there is only standing room as Greeks, Italians, Americans and others flock inside, waiting for loans. As for the Japanese, they are not so much hoping for loans but they expect Chinese tourists because that boosts their economy. I am happy to be alive, first because we all hope to stay alive, but also because this is an absolutely amazing time. In the words of Uri Dadush of the World Bank, by 2020 China, India, Indonesia, Korea, and Vietnam together could generate more wealth than the United States, Japan, and the European Union combined. The speed at which this change is happening is stunning.

Nobel-prize winner Michael Spence has written a book called *The Next Convergence; The Future of Economic Growth in a Multispeed World* in which he points out that there are different degrees of convergence. By the way, we are using the terms “developed” and “emerging economies” but we need to come up with a new vocabulary. In any event, there is a huge demand for business education in what we call emerging economies, especially in Asia.

We see a paradigmatic collapse of what we used to know as a first, second, and third world. We now have a convergence that is taking place. This is not to say that everybody is part of that convergence. There are landlocked countries in Africa that are being left behind. There is a book by Paul Collier entitled *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*. Despite the massive shift of many people in the poor world from subsistence to consumption, there are the so-called least developed countries that are not catching up.

A point that I like to stress is that countries like China, India, and Indonesia are not emerging but re-emerging. It is clear that they are going to produce a greater combined gross domestic product than Europe and the United States because they are far more populous. After all, Asia accounts for 60 percent of the world's population. What is taking place is a historical shift. In 1820, China's share of global GDP was 33 percent. By the time that Mao died it was 3 percent. Two centuries were lost but now Asia is returning to the world scene. Globalization has been around for centuries and it has been dominated by different powers at different times. Different peoples had their moments: the Romans, the Arabs, the Mongols. And since the 19th century, the world has been dominated by the West.

In the mid-19th century, the Japanese decided to adopt the slogan “If you cannot beat them, join them”. However, the Chinese refused to do that. Their government had a sense of superiority because they were the Middle Kingdom. They did not want to have anything to do with the West. Then, in 1978, Deng Xiaoping and the people around him decided to launch the Chinese economic reform program. That may be one of the most important years in Chinese and world history. The consequences have been amazing for China and remarkable for the world. We are now talking about China shaping the world economy.

There is a fascinating Chinese DVD series called “The Rise of Great Powers”. It has nine chapters: Portugal, Spain, the Netherlands, Britain, France, etc. It ends with the United States. This is a very interesting film that I recommend very strongly: it comes with English subtitles. It shows how the Chinese look at the rest of the world and what they think that they can learn from others. They say that the European powers rose through imperialism but China nowadays does not want to be an imperial power. Yet, the symbols that the Chinese are

using nowadays suggest that they see the rise of their country as the return of the great Middle Kingdom. Business educators need to think about the sources of Chinese leadership because some of the important issues are not at the state level but at the corporate level.

Everybody is talking about China, but what about Brazil? That country was called the land of the great future that never seems to be achieved. People were talking about Brazil already back in the 1950s, when I was a child, and they were wondering when that country's potential would be capitalized on. I believe that Brazil has taken off by now. What is interesting about that country is not just its economic dynamics but also its social dynamics. Since 1995, Brazil has registered significant improvement in terms of poverty and income inequality reduction. There has been a significant increase in terms of average monthly income per person, average years of schooling, and percentage of households with a washing machine and a sewage connection.

Many countries want growth, but what kind of growth? Brazil's is a very interesting model, achieving a combination of economic growth and social improvement. Laura Tyson said that a big mistake of business schools is the fact that they are not bringing globalization to the globe. In Brazil, however, enterprises aim for inclusive growth. This is something very different from corporate social responsibility. It is about achieving a civil society.

In 2001 or 2002, I was in Dubai, listening to a speech by the head of the Emirates Airlines. They had flights to Mumbai and Shanghai and they were starting daily flights to Sao Paolo. That is extraordinary because in the past if you wanted to go from Shanghai to Sao Paulo you had to go through London or Frankfurt. But the Emirates made it possible to cut the route.

The point I am making is obvious. Europe's share of global population is decreasing. According to August Comte, French philosopher and father of positivism, demographics is destiny. We are going to be living in an increasingly urban world. As a result, all business schools should consider the issue of urban development. There is also a tremendous rise of the aspiring classes. The term was coined by CK Prahalad. You see this rise in China, India, Indonesia, Africa and other places. People are moving from subsistence to consumption. They expect better lives, not just in terms of DVDs and cell phones but they also want better schools for their kids, and welfare. And they are beginning to travel around the world.

I live in Lausanne in Switzerland. People from other countries tend to confuse Lausanne and Lucerne. I was in Lucerne once and I thought I was in Mumbai because there were Indians all over the place. I wondered why. Apparently, it is a major destination for the aspiring Indian classes because many Bollywood films are made in Lucerne. So they come to see the places where their favorite films were made. These are some of the great market opportunities of the future. Unfortunately, we have global dynamics but we do not have global governance to keep pace with the situation that we have.

It is important to remember what Charles Darwin said:

"It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change".

Remember also this quote from Peter Drucker:

"The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday's logic".



**Peter Kraljic, Director Emeritus,
McKinsey, Slovenia/Germany**

It is a great honor to be invited to another CEEMAN conference and I am particularly honored to be in Georgia, Tbilisi, for the first time in my life.

We already have emerging markets and a changing business landscape. The changes are sometimes dramatic.

We are in a global market which is developing very rapidly. But, as Jean-Pierre Lehmann pointed out, we do not have global governance. There is nobody to regulate these markets. The financial crisis was the best example. Nobody knew what to do about it and the result was a horrible cacophony. The G20 attempted to impose some regulation but a year later the financial markets are exploding again and nobody knows what to do. The global GDP is 60 billion but the amount of global financial transactions is 600 billion. Who is controlling what?

We should not be afraid of this globalization but the question is how do we manage it at different levels? I think we should pursue two global goals: the wellbeing of people and societies and their safety. We are doing rather poorly on both. On the one side, we have rather rich countries, but on the other, we have some very poor countries. The difference between the richest, Luxembourg, and the poorest, Burundi, is 600:1. How can this be in the 21st century? Even across former Yugoslavia, the difference between Slovenia, which is the most developed, and Bosnia, the least developed, is 6:1. Across the former Soviet Union, the difference between Estonia and Tajikistan is 20:1. There is obviously something wrong with all that. Unless we find a way to manage these disparities, we can have very serious problems in the future. What needs to be done in the constantly changing business environment and in the emerging markets?

Jean-Pierre Lehmann mentioned seismic changes over the past 20 years. I can outline three major events. One was the fall of communism. The next one was September 11, resulting in the futile war on terrorism and the erosion of the superpower status of the United States. The third one was the financial crisis four years ago. It led to the crisis in the real economy that is still producing repercussions.

Below these visible phenomena are some important trends. Globalization is one of them. It is driven by the opening of the markets coupled with a technological revolution. Technology is now available to everybody and it is possible to leapfrog ahead. The rise of China is a good example of such technological leapfrogging.

Another trend is the shift in political and economic power away from the United States to China and others. There are also environment issues that have not been solved. There is an increasing scarcity of resources; water may become a bone of contention in the future. We are talking about aging Europe and Japan, but not about aging Africa or even America.

Another worrying trend is the growing global income gap. There can be big unrest in some developing countries unless something is done about it. We have seen some of that in Greece and even Spain.

To deal with the challenges of the future, we need not only new skills, but also new aspirations and new values. The old values have been eroding.

I fully agree that we have emerging and submerging markets. In the past, "emerging" or "developing" had a connotation of second-rate. But "developed" means "stagnant". Those countries are not moving ahead anymore

because they are developed. If you are emerging you move ahead; you are dynamic. Which one do you prefer to be? There are countries like Greece, Italy, and Spain that have reached the peak of their performance and are now submerging and their governments are desperately trying to stop this erosion.

We have a dilemma today. We have rich but stagnating markets which still account for half of the world's GDP. We also see fast-growing emerging markets that are catching up on all dimensions with the developed countries. Therefore, we have a new balance of power. We are talking about BRIC countries, but it is China and Brazil that are moving fastest. India is following after them. Russia, despite its enormous natural resources, is falling behind. Why is the state capitalism of China performing better than whatever kind of capitalism Russia has today? Twenty years ago, Russia was clearly ahead of China but now it is falling behind. These are questions that we need to discuss. They are particularly relevant for the area of Central and Eastern Europe and the transition countries.

The question of emerging markets should be rethought. The World Economic Forum has come up with a new categorization: factor-driven or efficiency-driven or innovation-driven. Unfortunately, there are only about 32 countries in the latter category. These are mostly the developed countries. There are some 30 countries in the efficiency-driven league and all the rest are factor-driven. Here is a question for us: how do we move these factor-driven countries into the other two categories? Innovation will be one of the elements of future growth and will ensure the wellbeing of those countries.

As for the changing business landscape, I would just like to add a couple of things to what Jean-Pierre Lehmann said. First, I see globalization as a great opportunity if you look at it the right way and understand the rules of the game. You can find new suppliers and new customers. You run into new competitors, but you can also make new partners. Why don't we form more partnerships on a global level?

Globalization brings about increased volatility and insecurity. This has to be dealt with. This results in new imperatives on the political level and the business level. These two levels need to cooperate much more than they have so far. There are countries that are notable exceptions and they are performing very well.

One of the imperatives is competitiveness. If you are not competitive today, you sink into an average position. I was recently invited to talk to the President of Slovenia about the country's economic strategy, which we actually do not have even after 20 years of independence. I told him that I had been invited in the same room by the previous president. The topic that I was invited to talk about at that time was competitiveness and what Slovenia should do about it. At that time, Slovenia was number 31 in the world. Today we are number 57. We have obviously decided to sink into mediocrity. This is a very dangerous attitude. Let us all think how we can increase the competitiveness of our countries. Competitiveness leads to growth, profitability, and wellbeing because without a sound economy you will not have a sound society. You just will not be able to afford what you need for healthcare, education, and other social expenditures.

Another issue is reinvestment and sustainability. A sustainable strategy is needed not only at the corporate level but also at the state level. Some states are investing more in the future than other states. The first type are also more competitive.

Finally, we should also consider the seismic changes that are taking place in business. We have a completely new set of parameters and paradigms. We have a saturated Western world and a hungry world of developing countries. This is a difference between "I would like to have" and "I must have". This is what drives growth. Therefore, competitiveness is becoming a very important element for many countries.

The world economy is growing but there is a shift from West to East. If we do not get our act together in Eastern Europe, we will start falling behind. Our societies will not develop as fast as they should. We see the stagnating rich countries, like the United States, which is characterized by a jobless recovery.

In Europe we see a split between northern Europe, which is performing reasonably well, and the southern countries - Greece, Italy, and Spain - that are increasingly under pressure. As for Japan, we have witnessed the Fukushima effect which spilled over to Germany; as a result that country abandoned its nuclear policy. But how will Germany solve its energy problem? If they manage to develop renewable sources that will be fantastic but what if they fail? They are taking a significant risk.

We have talked about the fast-growing BRIC countries. However, although Russia is growing at 4 percent once again, it is not growing as fast as it should and is losing its competitive position with respect to the other BRIC countries. This is very unfortunate, considering the incredible human resources that Russia has. Why doesn't Russia join the European Union? What stops it? Most Russians live in Europe, just like all Ukrainians and Byelorussians. If these countries joined the European Union, we would have an enormous bloc, not only of natural resources, but also of human resources. We could be a Eurasian region that is competitive against both, North America and China.

There are a number of very competitive countries, like Hong Kong, Malaysia, Turkey, Vietnam, and Taiwan. These are the growing countries. They have people who are hungry and want their economies to grow. In Europe, we have a mixed picture. Some are doing reasonably well - for example Poland, the Czech Republic, and Estonia. But most of the other countries, including Russia, are lagging. They are not growing their competitiveness very fast. You may ask why some countries are faster than others. There may be very different reasons for that. It could be a lack of a coherent economic strategy, a lack of natural resources, a small population, a lack of foreign direct investment, or a lack of competitiveness. The competitiveness index that is published by the IMD and the World Economic Forum is an indicator of how countries are progressing. I was once asked what I would like to see in Slovenia. My answer is that I would like to have a combination of Singapore and Denmark: Singaporean zest for economic growth coupled with a Danish willingness for social justice. Why can't we achieve this combination?

If you look at the top-twenty percent countries in the competitiveness index, you will notice a clear shift to Asia and South America. A lot of countries in those parts of the world are increasing their competitiveness. Malaysia is one of them. As for the BRIC countries, China is in the best position, followed by India, Brazil, and Russia. The best performer in Central and Eastern Europe is the Czech Republic; the last one is Bosnia. There is an enormous difference across the former Soviet Union as well, especially between Estonia and Kyrgyzstan. When a country is low in the ranking, there is a potential for social unrest. I think that we should talk more about competitiveness at our business schools. CEEMAN has been focusing a lot on management development and other important topics, but so far, competitiveness has never been brought up.

If you want to increase competitiveness, you have to work at five levels. The first is the mega level. I already mentioned the large economic areas, such as the European Union and NAFTA. The macro level is the level of individual states. There is another important level that we do not talk much about: the mezzo level. These could be sectors or regions within individual countries or clusters. If we take Germany as an example, we will notice that there is still a difference between the former West and East Germany, despite the billions of investments into the latter.

In France, Ile de France is thriving, but other regions are struggling and are far less developed. The same goes for sectors. There are no dying sectors; there are just dying companies. The question is which of these sectors should be pushed forward so that they become engines of growth.

Then we come to the micro level: the classic corporation. Corporations have to be competitive and sustainable; otherwise they will disappear. You do not have to be from a big country to be globally competitive. For example, Maersk is a Danish company; a world leader in maritime shipping. Novo Nordisk is a global leader in insulin production. There are also the hidden champions that are very important although we often neglect them.

The last level is the nano level: the people. These are often the only resources that we have. But do we develop our people sufficiently and fast enough? It

is the task of business schools to contribute to the development of the human relations chain: from primary education all the way to executive training. This includes education in innovativeness, entrepreneurship, and values. We need strong competitive values.

There is no strong correlation between national wealth and competitiveness. Italy and Slovenia are rich but not competitive. The closest correlation that I have found is with social cohesiveness. The Scandinavian countries are a good example. Competitive countries are also value oriented; they have competitive value systems; for instance Singapore and Malaysia. Once a Malaysian gentleman who talked about government-owned companies actually called them government-linked companies. The progress that they have made in Malaysia is very impressive. He said that what it takes to move ahead are complete commitment on the part of the government to the progress of society and a performance culture. Nothing will ever happen without such commitment. Then, of course, businesses have to make their own contribution, and business schools must help them.

CEEMAN has achieved enormous results in 20 years. But looking ahead, we see that even more has to be done. I think that CEEMAN can contribute a lot to the enhancement of competitiveness and the promotion of competitive values. You are educating the future generation of leaders and we need better leaders, both on business, but particularly on political level.

**Pavlo Sheremeta, President and
Institute Senior Fellow, MBOSI -
Malaysia Blue Ocean Strategy
Institute, Malaysia/Ukraine**

I listened to Dr Kraljic's presentation with interest but I beg to disagree with one of the points that he made. He stressed the importance of competitiveness and competition. But should Eastern Europe really compete with the Asian economies on their conditions? Should we do what they do? The Asian companies assemble products that have been designed in California. Do we want to compete with Asia on that? I simply do not see how that can be done.

There is another option, though. I think that the focus should be on creativity and innovation. Eastern Europe should not compete with Asia on assembly but should it compete with California on design? Of course, this is a difficult proposition. You might ask whether we have the capital that the American companies have. But is there a third option? Is it preferable to maintain hold and heavily polluting industries and compete in that field?

Think of iPhone 4. It costs about USD 560. The components cost USD 178. By the way, most of them do not come from China but from the United States, South Korea and Taiwan. The Chinese share of the USD 560 is only USD 14; that is what they get for their assembly. The balance of USD 368 goes to Apple. This reminds me of a statement by Peter Drucker whom I admire greatly: "Marketing and innovation produce results; all the rest are costs."

What is our innovation strategy? There are two approaches. One is to go for incremental improvements targeting the top of the pyramid. This strategy was pursued by BMW, iPhone 4, and Four Seasons Hotel.

There is also a new way of thinking about innovation. This approach amounts to a radical simplification, targeting the base of the pyramid. Examples of this are Tata Nano and Skype. The cheapest car produced in Ukraine costs USD 7,000. Why can't we produce a cheaper car? It is not that we cannot; we do



not want to. Each time I mention Tata Nano in Ukraine, people say, "Oh, give me a break! Is that a real car?" It is this excessive pride that is stopping us from doing what the Indians have done.

Another Indian company produces refrigerators that run on batteries. This makes sense in India because of the irregular power supply. Their refrigerator costs USD 70. Again, we have a cheap producer of refrigerators in Ukraine, but the cheapest one costs USD 300. They can produce a cheaper one because they possess the technological skills for that. But they do not have the right mind to do it.

Another good example is the Tune Hotels chain: advertising a five-star sleeping experience at the price of a one-star hotel. Unlike five-star hotels, they do not focus on facilities like swimming pools and fitness and they do not have large rooms. But unlike one-star hotels, they provide a clean and comfortable bed, security, and centrality. The chain was set up by Tony Fernandez who also founded Air Asia: the best Asian low-cost air carrier in the past few years. Both of these companies are Malaysian. Malaysia has 26 million inhabitants – a bit more than half as many as Ukraine. I ask my fellow Ukrainian countrymen why we cannot do something like that. What is the problem? What is it that we lack?

Tony Fernandez is a member of the Indian minority of Malaysia. He is like those leaders described by Mahatma Gandhi: "First they ignore you, then they laugh at you, then they fight you, then you win." Air Asia is a stunning success. You may have heard that they ordered 200 Airbuses this year. This is the biggest order in the history of Airbus. Air Asia is also helping Malaysia Air which is in trouble. Now, Tony Fernandez is a Malaysian hero. He has obtained the highest state title. All this happened despite the fact that he acted without government support.

As any other country, Malaysia needs to deal with crime. Of course, the situation in Kuala Lumpur is better in that respect than it is in London. But can it improve even more? Can it be like in Singapore? The Malaysian police officials would say that it was possible - if you provided Singaporean funding. Why did they need more money? Because, they would say, they had to use more helicopters.

The typical street crime in South-East Asia involves somebody riding a motor-bike, snatching a lady's purse and speeding away. How do you stop this type of crime with a helicopter? The real problem is that out of 100,000 police officers in Malaysia, only about 10 percent patrol the streets. Why? Because it is hot and humid in Malaysia. You love to be in an air-conditioned office despite the fact that you have been trained to be in the street.

Realizing this, the Malaysian government put many of them out to patrol the streets and moved public servants into the Police offices to do office jobs. The number of public servants was half of the number of police officers as there was no need for too many of them. The result of this was a 40 percent drop in street crime.

This seems easy to achieve. In fact it is hard. And it is hard because government agencies usually do not talk to each other. The army and the police do not want to talk to each other either. If you ask them why, they will tell you that they do not salute in the same way. Think of how difficult it is for marketing and sales departments to talk to each other. If they find a way to communicate, they could do miracles.

I want to conclude this talk with a note on the emerging markets' talent strategy. Do we know who our best students are? Do we know how to identify them? And do we care what will happen to them after they graduate? These are the issues that we should be thinking about.

Parallel Workshops: How Changes in the Global and Local Business Landscape Are Felt in Business and Business Education

Summary of Workshop 1: Business in Search for New Learning and Educational Inputs

**Robert Whieldon, Corporate
Development Director, University of
Leeds, Business School, UK**



We had three speakers in our workshop.

The first one was Antoine Bardon, President of the French Business Council, Georgia. He talked about the need for business training in this country in the very local context that we have here. He focused on two relevant sectors: tourism and hydro energy. He explained the need to design and develop schools that can address the needs of these two sectors. He also told us how the Georgian government is looking to develop tourism in this country.

The next talks were given by myself and Ivo Matser, Chief Executive Officer of TSM Business School in the Netherlands. We spent some time on how business is learned. I spoke a little bit about the research that we do on how businesses learn and what that means for businesses as they grow and develop. Once they get used to learning, they move along a learning conveyor belt and employees in those businesses also join educational programs. I used a case study on how businesses learn and how we used public sector money to test out those ideas and demonstrate that they work and how we used that knowledge to leverage private sector investment in a business growth program for small businesses in the United Kingdom.

Ivo talked about how you have to tailor a program to business needs, the difference between learning and teaching and the need for 180 degree change in the way that we think. He gave the example of the government building agency with over 1,000 staff members and how they developed programs for that. He told us that the programs were designed around different styles of learning and how these could be used in an appropriate way and matched with the students and the participants on the executive education programs to make sure that the learning was optimized.



Summary of Workshop 2: Business Education in Search of New Learning Partnerships with Businesses

**Marina Karchava, Vice-Rector, Free
University of Tbilisi, Georgia**

We had a very lively discussion and I would like to thank the two speakers and all those who were involved in it.

The issue that we discussed was whether there is a need for looking for partnerships between business schools and businesses. Our first speaker was Virginijus Kundrotas, Dean of Adizes Graduate School in the United States and President of the Baltic Management Development Association (BMDA), Lithuania. He started challenging us with questions. His first question was what schools are doing to find out what kind of relationship businesses expect. One of the suggestions that we heard during the discussions was "Keep your ears open and listen to your customers". This is the main idea that I took from those discussions.

Another question was what business schools do to meet the expectations of business. We heard about a wide range of programs, from traditional to custom-made, as well as combinations of training and consulting.

We also discussed how business schools forecast the expectations of business and whether they should do that in the first place. The answer to that was that although it is not always possible to predict how the market will develop, business schools should try to make forecasts.

The last question that Virginijus asked was who are those who can deliver the content that businesses need. This was one of the most challenging topics of our discussion. Who are those people that can provide good knowledge, leading to sustainable outcomes? It is not an easy question because it is associated with degree recognition by the state. In some countries there are problems in that respect.

The second speaker was Franziska Frank, Head of Development in Russia and Eastern Europe, Head of Practice Group Professional Services Firms & Insurance Companies, ESMT Customized Solutions GmbH, Germany. She gave us a different perspective of the market of business schools that I would call holistic. She stressed the fact that people are changing. The new generations are different from the previous ones. There are baby-boomers, generation X and generation Y. They are all different in terms of learning styles. This is something that we need to take into consideration.

Another point was that businesses also change. There is a transition from extracting commodities to provision of modern products. This enables people to transform.

Franziska's last remark was that knowledge is also changing. Besides, there are changes in terms of what faculty members need in order to be able to deliver appropriate knowledge to the students so as to meet their needs. The value chain that business schools provide to their clients is also expanding. This means that business schools need to master new skills in order to respond to these developments.

These presentations were followed by a fierce debate. We talked about the need of involving psychologists in the programs of business schools. Do we need them to help change the curricula and syllabi of our schools or as psychotherapists for our students?

Then we discussed possible partnerships between business and business schools. One of the ideas that we heard was that a partnership is valuable and viable as long as it is a long-term partnership. What can be done to achieve such collaboration? Listen to your customers. We started out with this idea and we came back to it during the discussion.

We also discussed the methodology of teaching. We came to the conclusion that it is very important to develop reflection skills in our students. This requires participative project-based teaching during which we do not just teach but learn together with the students. That is how real learning can be achieved.

Finally, we talked about who can teach in a business school and the recognition of business programs.

These were the most important points of discussion in our workshop.

Day 3: Is Business Education on Track?

Panel: Do Business Schools Teach What Their Customers Need?



Introduction

Nana Adeishvili, Competitiveness Analyst/Strategist, Georgia

Good morning ladies and gentlemen. I have a pleasure to moderate this panel. I think that this is one of the key panels of this conference. We are going to talk about whether business schools meet

customer needs. There are several issues that will be presented today by the panelists. And I would like to express my concern that I hope will be addressed today as I myself represent a customer side. (My son has just graduated from the Imperial College in London). The most acute issue is related to the employment after graduation. The companies have developed sophisticated processes for applicants screening and interviewing, however, hiring for them is an investment decision under uncertainty. Therefore they "hunt" for the students from the top universities, with highest education cost. On the one hand, the high-cost universities attract more applicants, but on the other, the competition motivates to push education prices even higher.

At the same time we see that the hiring process starts with the first months of studying; students spend a lot of time on application processes and running for interviews, as they get mixed signals from the market and potential employers regarding the intrinsic value of their education. So here comes the question who is the real customer for business schools?

The second market signal that makes customers doubt the cost-benefit of investing into business schools is that in real life they don't see a correlation between the degree and successful entrepreneurship. After all the most successful and famous entrepreneurs are university drop-outs. That brings the question about the education style and models.

So, let me introduce our panelists.

The first speaker is Antonio Gelis Filho, who, among others, will address the issue of business school models. He is a professor of management from the FGV in Sao Paulo, Brazil, where he teaches executives as well.

The second speaker will be John Powell. He will be addressing the issue of what is important to the four stakeholders in the business world, namely students, industry, research (i.e. the state) and society. Prof. Powell is a Direc-

tor of University of Stellenbosch Business School, South Africa. He has considerable experience in consulting and in executive education, and also an extensive experience working in British Aerospace, holding executive positions.

And the third speaker, Olga Saginova, will argue that to understand whether a business school meets the needs of customers, we should clearly understand our customers and stakeholders. This statement seems evident, but it is not.

Prof. Saginova is a Dean of Plekhanov Graduate School responsible for master's level education including strategy, planning, quality assurance and business development.

Antonio Gelis Filho, Professor of Management, FGV-EAESP, Brazil

I am delighted by this opportunity to make a presentation at this CEEMAN forum because the relevant issues in Sao Paulo are the same as those that we are discussing here.

Since the fall of the Berlin wall, a whole new world has unfolded. This is the so-called post-cold war era. It is a period of consolidation and spreading of the current business model and business school model.

Business school customers can be defined as those studying at business schools and their institutional sponsors as well. In my view, business school students need a set of managerial tools that help them solve problems in a sustainable way. We are talking about different types of sustainability: economic, environmental, societal and emotional, which means personal. Students are increasingly looking for career support and ways to balance their professional and personal lives. Networking helps you solve a lot of managerial problems, including the main one: how to get a job.

There is also a second group of needs that I define as being the need for an intellectual roadmap. This is what helps graduates in adapting their business careers to changes in the environment. What I mean by "environment" is the political, economic, social, technological, natural, and regulatory environments.

Business schools have been successful in addressing the first type of needs, less successful with respect to the second. Why is that so? The current model for business schools was developed in a very specific environment: the so-called "Western liberal late capitalism", strongly based on neoclassical economics. It has expanded heavily during the early post-cold war period, known as the "neo-liberal globalization". That model has a number of implicit assumptions. First, it is assumed that the allocation of resources by free market forces and financial markets is optimal, or at least it is much more efficient than the alternatives. The second assumption is the universal validity of political and economic Western structures, which would ideally spread throughout the world once obstacles were removed. Francis Fukuyama's book *The End of History and the Last Man* was the flagship of that philosophy. Yet those predictions did not come true. According to that model, China should not be the global power that it is.

There is a major and ongoing geopolitical shift. We are in the vortex of the storm. It has changed business in Brazil and its repercussions have been felt in this part of the world as well. It seems capable of changing the political and social environment. This generates anxiety in our students. They are increasingly seeking information to understand what is going on.



The time has come for business schools to adapt to these changes. In the long run, the inability to address the need for an updated intellectual framework can prove to be damaging also for the ability of business schools to address the need for managerial tools. That could happen for a simple reason: the optimal utilization of managerial tools must be preceded by an adequate analysis of the larger environment.

What should we do? In times of change, business schools should remember that ultimately they are schools of applied social sciences. This may sound strange to some but that is our core function. We need a large gamut of intellectual approaches to business. It should include political science, sociology, and psychology. Business schools should not limit themselves to one single approach without understanding the broader picture. A focus on a single “philosophical” approach is useless, and even dangerous. We need a variety of tools and approaches to explain what is going on in China, for instance. This is something that we cannot do with our current models. Business school students should also receive the opportunity to learn about the many different “near futures” that could eventually unfold out of the current global situation. It is up to us to decide if we want to be part of the problem or part of the solution.

How do we bring together the local and the global requirements? I think we should keep chasing the global dream but without falling in the abyss of global delusion. That delusion would imply that everything across the world is following the same pattern. That is just not true. That is why I say that we are schools of applied social science. It is not a matter of extending the curriculum. It is a matter of approach. We can extract many different lessons out of the same business cases. In order to adapt the global model to our local realities, we have to be able to understand the local society. This may sound like some kind of snake oil that solves all problems, but it is not. For example, I cannot imagine an entrepreneur who does not understand his or her society. In fact, that is the reason why so many entrepreneurs do not need business schools in order to be successful. They are sociologists and psychologists by nature and by intuition. Their experience teaches us that we need to provide our students with a deeper intellectual ability.

Professor Sandoyan tells us that some MBAs are capable of delivering excellent presentations that lack any content. It is true; when times are easy, appearance may seem more important than content. But when times are difficult, it is the other way around. And I do not need to convince you that we are living in hard times.



Olga Saginova, Director of Plekhanov Graduate School, Plekhanov Russian University of Economics, Russia

The Plekhanov Russian University of Economics was the first higher school of economics in Russia. This year we are celebrating the 105th anniversary of our existence. It was originally set up as a private school by a group of Russian merchants but at present it is a public school.

The question that this panel is discussing is whether business schools teach what their customers need. First, let me briefly describe the current situation as I see it. I will give you a national perspective and my colleagues from Russia and Ukraine will correct me if I am wrong.

Most business schools are now positioning themselves as service organizations. They are no longer the ivory towers that the universities used to be.

We are even using the jargon that businesses are using. We are service-oriented, client-oriented, market-oriented, strategy-focused, keen on generating income, and involved in cost-benefit analyses. We say that we make our services work for our stakeholders and customers.

On the other hand, there is a whole list of issues that business schools need to consider: ethical responsibility, ethics, integrity, human capital, knowledge creation. This is becoming increasingly important after the latest financial crisis.

If we are market-oriented organizations, we should also speak about the experience that we provide to our students. We should not forget that these are some of the best years of their lives. They need some life experiences and excitement during their years at a business school. It is for them that we produce our glossy, juicy brochures and our flashy websites.

What are our applicants looking for?

They want a prestigious diploma and a recognizable brand as well as a successful career with an attractive salary. They also expect an affordable price; the business school education should not be overpriced. This is important in a country like Russia since students finance their own studies.

As for the students that we have already enrolled, they are also keen on a prestigious diploma and a well-known brand. But, as Nana said, they start going to job interviews as soon as they have been admitted to the business school. They also look for contacts, in order to boost their career perspectives. This is even more typical of students on graduate programs. And of course, they want their lives to be cool and interesting and exciting.

As for government and society at large, they are interested in equal opportunities in access to higher education. The government controls the quality of the education either through national quality standards or through a quality assurance system. The members of society want to be educated and responsible citizens.

The final consumer of the skills and knowledge that we provide is business. Business expects specific knowledge and skills for specific immediate usage. They want the graduates to be adaptable and accepting change as they change their professional careers several times in their professional lives. They are keen on people who can demonstrate leadership skills and creativity.

If we had catered only for the interests of the first two groups of stakeholders, Russia for example would not have had any engineers and medical doctors after the turmoil in the beginning of the 1990s when all school leavers wanted to be brokers or bank managers.

But there are also parents and sponsors and they have their needs and requirements. Once I got a call from the embassy of Azerbaijan. They wanted a report on the progress of an Azeri student who was financed by some national foundation. They did not want just grades. They wanted a psychological portrait, including the student's attitude toward education.

We also have faculty and employees at our business schools. Their satisfaction level has a great impact on the quality of our services. There are also international accreditation agencies setting educational standards. Unfortunately, sometimes they do not appreciate the needs of the local market.

So how do we respond to all these diverse needs and wants? Some Russian business schools focus on the wants and needs of the applicants and their current students. They sometimes offer very exotic combinations of programs under one and the same roof, such as "Legal Issues" and "Fashion Management". Some regional business schools that are linked to regional universities cater to the needs of the government. They are funded by the government and have their work assessed by it.

We have to prioritize the needs of our stakeholders. But which demands do we address? If we address today's demands, the businesses will be unhappy because they want perspective. They want graduates who are capable of focusing on the future and of taking their organizations there. Sometimes, we design programs that we believe to be important for the near future. However, the applicants would not understand what we are talking about. And what will we do if we do not have applicants?

Many business schools address yesterday's demands. Why? Because that is what we know. That is what we have trained our faculty for and what has been approved and funded.

In Russia, most business school revenues come from the students. Consequently, we have to be very attentive to their needs. If a school gets public funding, it must be responsive to what the government requires. Where is the labor market then? Where is the business? With the exception of customer-oriented executive education programs, I do not see much involvement of Russian business in the design of business school curricula. They pay for some short-term skill-developing training for their employees. Sometimes they cover part of the costs of their MBA students. But they are not ready to get involved in program content or revenue generation.

The big question is who is paying for the social responsibility, ethics, and integrity - all the issues that are very important for both society and business schools.

There are two popular Russian questions, known from our classic literature: Who is to blame and what shall we do? I will skip the first one and try to answer the second from the perspective of a business school. I believe that business schools should promote their own vision and set of values. They should not follow the immediate needs of their clients. I can refer you to the latest edition of *CEEMAN News*, which is in our conference pack. It contains an interview with Hermann Simon, author of "Hidden Champions" concept. According to him, one thing that business schools can learn from the hidden champions is to develop their own niche and become a world leader in it. This is how you can create a set of values and promote them to the stakeholders.

Governments should allow business schools to follow long-term agendas and provide sufficient funds to support them. The businesses should be ready to share the costs of building socially responsible employees of the future and participate in both content development and program delivery. International organizations should support business schools and put pressure on governments and businesses so that they work together.

There is another important stakeholder: the media. It is essential that they promote socially acceptable and ethical success models. Parents want their children to become lawyers and executives. Very rarely do we see university professors as role models, or engineers, or medical doctors.

Thinking about the topic of this panel, I would like to ask some questions. Do business schools know their customers? Do the customers know their own needs? Should we communicate the importance of some of the values that we have selected as our top priorities? Finally, do business schools understand what needs should be met first and foremost?

I would also like to reflect on the importance of theory versus practice. In my master classes there are engineers with a technical education currently holding managerial positions, and managers with previous business or economic education, and there are yesterday's business students. They have a variety of different needs. As a professor, I believe that they all need a theoretical perspective; that is what brings them all together rather than their practical interests on which they all diverge. I also think that the faculty should respond to students' questions, not give them ready answers or just tell them what chapters to read.

The teaching methods are also extremely important. If we teach only by lecturing, the students will not understand much. But there are many ways to actively involve the students, such as simulations and games. These give them both a practical experience and a theoretical background.

John Powell, Director, University of Stellenbosch Business School, South Africa



There was a lot of talk yesterday about how business schools should persuade Russia to join the European Union. This is hubris. We run business schools, not countries. We have four stakeholders in my view. We have social stakeholders, like the poor of South Africa. They are surprisingly happy; probably because of the weather or because of their collective way of life. But we have a duty to those people, which is part of the duty of the society in which we live.

We also work for the industry that provides the financial resources, allowing our students to take our courses. We have another responsibility: to create knowledge and new thinking. And, there is a student body whose needs we have to address.

What do these stakeholders want?

Students expect contemporary solutions to contemporary problems. They ask, "What are the problems today and what do I do about them?" They want clarity in our assessment criteria and syllabi as well as reasonable workloads. They want to be able to do their academic work and enjoy themselves at the same time. Short MBAs should have a minimum real cost. Students also expect coolness and kudos. The MBA should be something you can talk about. That is why rankings are so important. Finally, they want jobs.

The industry needs immediately usable graduates.

The research authorities in any country want publication, relevance and impact. At least, they say they do.

Society wants projects that produce a social impact; they want us to contribute to societal welfare. Of course, it wants us to behave responsibly.

What these stakeholders need is a focus on long-term education, not a concentration on the transient, ephemeral, and temporary. They need future-proofing; that is, an education that will last them for 25 years, not for two years. They need pressure. Somebody who has spent 25 years in industry said to me once, "I do not want somebody who has had an easy education", whether that is Philosophy at Oxford or Economics in Sao Paulo. The graduates need to be used to handling a heavy workload.

From my viewpoint, business school graduates need to be interlocutors, combining theory and practice. And above all they need self-development.

Industry wants future skill sets, not just those for today. As for the research agenda, I think that it is pretty much right. They do want impact and relevance but what they are missing out on is that they are not rewarding thought. Ultimately, that is what universities and academics do.

In societal terms, we should be contributing to the economy and making long-term knowledge investments.

How do we respond to this situation? Of course, we have to listen to our clients. But at the same time we should stick to what we believe. In my view, they are not customers. Customers are people who walk into your shop and say, "I want that electric fan and that lipstick". You say, "Yes, Ma'am". We are educators. Of course, we need to be responsive to the existing fashions. But we must do that within our own context. The context of Georgia is very different from that of South Africa. It is also very different from that of the Arab countries and China. We need to cooperate and compete at the same time. We must be sensitive to that transience but we must educate, not teach. Under

no circumstances should deans allow any teaching to take place at their schools. They should cause learning to take place. That is a different matter. Deans should also not allow the contemporary to overrule the eternal. The easy part of education must not replace the developmental and the tough. Do not make the mistake of viewing the accreditation authorities or the press as anything but advisory bodies. Do not think that ratings or league tables matter to the process of transferring knowledge. And let us not make the mistake of believing that we know what is going to happen, because we do not.

Concerning the question of entrepreneurship that has come up in today's discussion, I think that this is something that needs to permeate the whole curriculum of a business school. It should be like the streaks that run across a marble slab. Modern business is simply impossible without entrepreneurship and innovation; the two cannot be separated. They are critical in any organization, including public ones.

How do we promote learning and social responsibility? I do not think this is a particularly difficult thing to do. It depends on the state of mind of the students who are entering the institution. In our part of the world, the social issues are in the heart of people. They streak through the moral geography of the students. How do we approach this in practice? Our school has built linkages between South American, South African and Indian institutions. This enables the students to share experiences and go on something like a safari. The key thing is that they learn about the problems of other countries. This is required as part of the degree; they have to engage in a practical social program back in their country. This is assessed by professors at the university and the industry that provides the funding. That motivates the students dramatically.



Edward Sandoyan, Vice-Rector for University Education Development, Head of the Department of Economics and Finance, Russian-Armenian State University, Armenia

Since I have to play the role of a challenger, I have special questions that I would like to ask of the panel members.

I have spent 15 years as a practitioner, in financial companies in Armenia, Switzerland, and Russia, and more than 10 years in the government of Armenia. I have also taught at Armenian and Russian universities. Besides, I am a business school director. We have partnerships with various international institutions. Therefore, I will ask questions as a practitioner, as an employer, and as a professor.

Armenia is a transition country. We have been reforming our country for 20 years with varying degrees of success. For some 10 years, we were a leader in reforms but now the leader is Georgia. For various reasons, the reform process in Armenia has slowed down just as it has sped up in our neighbor. One of our problems was to attract professionals. We wanted them to be qualified and young. The reason is that the older generation - the so-called Homo Sovieticus - are not very effective, especially if we are talking about radical reform and a transition to a market economy. I do not mean to insult those people but that is what we observe.

Therefore, we prefer people with a Western education. Now, 80 percent of Armenia's population live outside the country. There are Armenian diasporas almost everywhere in the world. That is why there are very well educated Armenians around. Unfortunately, people who have an MBA education are not capable of mastering research although they are good at presentation

and formatting their reports. Sometimes they manage to present useless information nicely.

I am a lecturer myself and I am not really satisfied with our curriculum. There are 15 disciplines plus a master thesis. The corresponding programs in Russia are much longer, with thousands of academic hours. Sometimes, they also add strictly academic elements, rather than a direct focus on business. Yet, the final results are the same. My first question to this panel is: What should we do to find the golden middle? Knowledge gets outdated very quickly. How can students be taught how to learn? Many MBA graduates know how to dress nicely and how to make slides but they lack deep knowledge. What can we do about that? And how can it be done without stretching the timeline of the programs too much as nowadays people cannot afford to spend years in business schools. This experience should not be too expensive.

I think that we need to think about the mutual recognition of credits, for example within CEEMAN. If we develop standards for that purpose, a student could take courses in Brazil, South Africa or Georgia. A working student could gradually collect his credits and do his thesis wherever he wants. CEEMAN could help with this. There are so many schools in this association and if we work together it would be great. I am giving you an example of how people could buy a product piece by piece rather than the whole thing at a time.

Here is my last question. We tried to implement a Swiss program in Armenia but it is too expensive for our market. The reason is that visiting Swiss professors are too expensive and this makes the program unaffordable on the Armenian market. However, we could deliver the same program with local professors. Once we tried to set up joint programs with Moscow universities. However, the calculations showed that it did not make any sense; the programs would be three times as expensive as ours. For example, the Armenian-American University charges USD 3,500 a year, whereas a Russian program would cost USD 11,000 - 12,000 a year.

My question is what we can do to deepen the content of our business education without increasing the cost. Also, how can we integrate or associate some schools at a regional or global level? I would also like to know how we could implement a system of mutual accreditation, but not as we have it today. I like the current system and respect it but we need another one, too. I am talking about a system under which we recognize each other's credits so that we ensure greater student mobility.

Panel: Is Management Research Appropriately Impacting Practitioners, Teaching, and New Theory Development?



Introduction

Teimuraz Vashakmadze, Senior Lecturer, IBS-Moscow, RANEPA, Russia

There are three key questions associated with this topic. The first one is whether practitioners care about the findings of management research. Another one is whether management

research can be used in teaching. The third one is how this type of research can be used to build theories that can have practical consequences.

We have three panelists. Janina Jozwiak is a Professor at Warsaw School of Economics and Director of the FORUM Association of Management Education, Poland. Olexandr Savruk is Dean of Kyiv Mohyla Business School, Ukraine. Zoltan Buzady is Associate Professor at the Central European Business School of the Central European University in Hungary.



Zoltan Buzady

Associate Professor, CEU Business School, Central European University, Hungary

Thank you for allowing me to express my views of this interesting yet never-ending story. I did a survey with the MBA students in two different classes at my school - Change Management and Leadership.

I will share with you the thoughts of the customers that we are producing our research for. Finally, I will also let you know what I think of this topic.

At the Central European University, there is a strong belief that it is a research university. Some departments have only PhD programs. They do not even teach master programs. There are subjects that are driven by research, such as Medieval History or International Human Rights.

The Business School is a separate entity. We have big difficulties because we live on tuition fees and we have to convince the market that what we are doing is relevant. Therefore, we often have discussions on what kind of research would be relevant and would produce an impact. It is a sensitive issue that reminds me of some endless debates. The school was founded 22 years ago for teaching what was the norm in the United States and the developed world. Then, creation of regional knowledge became relevant. Recently, my colleagues and I have been trying to position the school in a niche in the global market. As a result, we are looking for new fields of specialization and research.

I have been through the Anglo-Saxon PhD machinery myself. Then, I discovered that the Western knowledge in the field of organizational behavior, society, and leadership did not work very well in Eastern Europe. What should I do then as a researcher? How do I get closer to the local reality? I will tell you a little bit about what I found out.

The minds of the students that I surveyed were quite far away from the business research that we see in academic journals. Perhaps they have not been exposed to it sufficiently. They ask whether my colleagues and I do this research to satisfy our own academic fantasies or because we want to help them become better managers. It should not be like that. The utility of what we are doing should be obvious to the students.

Another comment was that sharing so-called best practices with the students is a good thing but certainly not enough anymore. This was a strong message. They respect what we give them and trust it but they do not consider it enough to put it in their toolboxes. I asked them what it would take for that to happen. They told me that we should create a climate without fear so that they can take onboard what they need.

I asked them how fear could be eliminated. I found out that it has to do with different individual learning styles. They acknowledged that some people were learning from academic sources, whereas others preferred imitation. They wanted to imitate each other.

I was also told that my colleagues and I were trying to tell the students about the positive sides of life or about how things should be but it is ultimately up to the students to go out in the real world and find real solutions to real problems. At the very least, they are happy to hear how things should be, although that is not exactly my goal. I see my role as someone who uses theory to describe reality as closely as possible, whereas the students are the real problem-solvers in the real world. They need the equipment that we can provide to them.

The students think that once they go out, they will use the theory to build roads. They think that job is easy. The difficult task is to maintain the roads, keeping the positive elements in the new solutions.

They asked me whether research impact could be measured. Of course, it can. There are publications on that.

Concerning the important characteristics of a manager, they mentioned self-awareness. The students told us that we needed to create moments of self-awareness and self-recognition. This is music to my ears because I teach Organizational Behavior and Leadership and I strongly agree with the students.

I have witnessed a repetition of mainstream Anglo-Saxon theories that have been translated into various other languages. When I started my PhD research, it was quite difficult to get copies of books and a lot of photocopying was needed. But now the digital revolution has rendered that process easy and free of charge. It has become very easy for a researcher in this part of the world to copy-paste a questionnaire and do a comparative study. Apparently, this is not the best way to improve our research activities. I think that if we want real improvement, we need to get the feel of the company. Only then will our research be perceived as practically useful.

I think that this can be done by filling the local gaps. We need to create small units of research. By this I mean case studies and projects. I am a little skeptical about grand theories and think that our real goal is to fill gaps. I use blogging for my courses and allow the students to produce new theories.

Companies are much more likely to accept cases written in the local context than any grand theory supported by numbers and statistics.

I also believe in the importance of process. I am not a dry theorist. I like structure but I think that the effectiveness of this process of giving back to the external environment lies in the process itself. I subscribe to the statement that we heard yesterday that the real issue is the students' behavior and how they can transform it.

When I teach on executive MBA or in-company programs, one of the first things that I say is that they need to change the existing socialist or Prussian mentality: you do a degree, you write a paper, and you will be a successful manager. They need a different mentality and that is relevant for the way that we are doing research. They have to acknowledge that they are already individuals with a lot of knowledge. They come together and do things together; as a result, they will have greater experience. This is what will give them more solutions in the toolbox.

I wanted to give you my perspective of an academic who is in an environment driven by hardcore research. That is fine as long as the research is applicable in a business context.



Olexandr Savruk, Dean, Kyiv Mohyla Business School, Ukraine

I would like to start with a little bit of context – and to describe shortly the nature of Kyiv Mohyla Business School:

- Our school provides executive education only;
- The average age of our programs' participants is from 30 years and more;
- We operate as a private entity, which means that tuition fee is important – it is the only source of our revenues;
- We consider ourselves as a niche business school with strong leadership focus.

I would like to make several assumptions for this panel discussion.

First, we do not believe that management is a science, but it is not an art, either. Therefore, leadership really matters. We are talking about responsible leadership, which we call "transformational". We try to help people to develop their ability to create and / or transform systems – ranging from organizations to countries. As a life of every system has several "points of no return", we should remember that paradigms are changing and be well-prepared for these transformational cases. In particular, we have to:

- Be able to develop new mindsets along with our participants;
- Create a new learning environment;
- Consider diploma just as the beginning of life-learning path.

Second – research, from my point of view, is closely connected to what is called "a school of thought". I would rather use this definition - professors and students proceed together as partners in their learning exploration.

We understand that in our approach research is always context-dependent. Now we are in the situation when an industrial approach to research does not work anymore. And, it becomes very important because it creates a

basis of authority for setting our own standards. We have to take responsibility of what we teach and how we teach. We understand that learning is about reflection and discussion. In that sense, this conference can be considered as a research as well.

Research has to be something that contributes to our value proposition to the adult practitioners in our classroom. The American motto "Publish or Perish" is not the way to organize activities of a university's professors anymore. It is our task as administrators to avoid this trend.

We have an interesting feedback: up to 50% of value comes from our participants in class. To help them discover this value, we have created so-called "reflective" infrastructure – a virtual learning environment, in addition to classes. We have learning management system and invested into a professional network with current participants and alumni community.

A very important part (of 20 to 30 percent) in our programs structure is devoted to leadership and personal development – things like Art Metaphors in Management, as well as Philosophy, History, Literature, Power of Ideas and System Thinking. Here I'd remind you the famous expression of Jack Welch: "Soft is Hard". Soft issues require a certain work style in co-operating with programs participants. Working with values, business roles and ideas, we all should constantly shape our styles of doing things. I do believe that everything business schools should know about future management can already be found in the world's best art museums!

Third – talking about faculty, we consider our faculty as "reflective practitioners". We expect them to be acting managers or consultants first, and only then they can have a right to come and teach at our school.

Of course, it is very important to have a good learning methodology. We use blended-learning approach – a mix of in-class and virtual learning environments. We use problem-based learning to high extent – that means we have experience in conducting cases, and "live cases" – a kind of friendly consultancy to our participants' companies. Our school already has a special infrastructure for these developments.

All this together creates a learning community of kmbs. And we hope that it will grow further. As a small example, I can tell you that in a week 110 kmbs MBA alumni will come to this hotel to have a serious discussion with Georgian government and businessmen. Furthermore, we have an invitation by the Georgian President to talk about transformational leadership in a case of "Georgian Breakthrough".

Janina Jozwiak, Professor at Warsaw School of Economics, Director of FORUM Association of Management Education, Poland

I have participated in several national and international bodies whose task was to evaluate research projects; therefore I think I know a lot about the issues associated with research. I am glad that I have an opportunity to share with you my opinion on this topic.

After long discussions, we have decided that research is an important element of business education and the development of a business school. On the other hand, it is not clear how much management research is valued by the academic community in the context of education.

Let me start with some comments on the impact of management research



on education. I will start with a UNESCO report on education in the 21st century according to which we can identify four pillars of good education, including management education. Students should be taught how to learn to know, how to learn to act, how to live together with others, and how to be. Translating this into management education, "to know" means to understand the complex social and economic processes and their dynamics. Students should understand market developments and possess analytical tools. In my opinion, these are very important. They need to solve problems and react to a changing environment. They should also be able to accept other cultures, communicate, cooperate, network, and create social capital. They have to be creative, competent, development-oriented, entrepreneurial, active, and so forth.

To support this structure, we need three pillars. The first one is knowledge. The second is skills. The third and fourth are attitudes and values.

Thinking about management research, I believe that can influence the first pillar. First of all, this can be achieved by transferring research results into specialized courses both for regular students and executives. This happens at some business schools, especially at Master's and PhD level. For example, at the Warsaw School of Economics, we have special electives at which the teachers present their results. They have special post-diploma studies for practitioners who want to renew their knowledge.

With respect to the other three pillars, this transfer of knowledge is not enough. There are other methods to build attitudes and values; these have to do with academic culture, relationships between teachers and students, academic ethics, teaching methods and suchlike. It is also important to involve the students in research projects. It is possible to find examples of students being involved in research but unfortunately this is not very common practice and I am not very happy with that.

Yes, management research is important in education but only in part of it.

When we discuss the impact of management research on practitioners, we need to keep in mind the fact that the situation is very complex. I have done a small survey. I talked to several practitioners whom I know and asked them what they think of management research and its impact. They told me that, first of all, management research is applied research that answers specific practical questions. It responds to existing situations rather than anticipates future challenges and proposes solutions to them. There is a perceived time gap between the results of management research and the fast-moving real world in which new methods are being developed and implemented.

This suggests that it is practitioners who create agendas for management research, not the opposite - it is not the results of research that influence reality. From my academic viewpoint, this is rather bad.

One of the weaknesses of management research reported by practitioners is that research-based recommendations are too general or cannot be directly applied. Moreover, there is a strong competition between management research and management consulting. The latter takes many forms and offers more attractive solutions than the former.

On the other hand, there are a lot of platforms on which scholars and practitioners can cooperate. In some cases, academic theories can be immediately verified in practice. For example, scholars work as advisors to companies, bringing along with them academic concepts and ideas. Vice-versa, practitioners in Poland often want to participate in academic events in order to gain new knowledge on current trends. I know several big projects with employers that are run by colleagues from my school.

My school and others have special units for cooperation between academia and business. They are focused on applied research. As I said, they seem to be more reactive than proactive in their activities. This is one of the weaknesses of management research.

Management research can influence practice only through close cooperation with practitioners. In my opinion, business and academia need to build better communication channels. Otherwise, management research will be replaced by management consulting.

As for the impact of management research on new theory development, I am very pessimistic. Of course, there is a lot of good research in management. A lot of good projects are being run in Poland, including my school. There are a lot of scientific products, such as articles in peer-reviewed journals and books. Scholars are assessed on the basis of their number of publications. But in Poland, research is focused on rather narrowly defined issues. I am convinced that only big ground-breaking projects can help build foundations for new theories. Unfortunately, this kind of projects is lacking. To change this situation, management research needs more vision, more sophisticated vision and better research methods, both qualitative and quantitative. It also needs more interdisciplinary overlap as well as greater courage in thinking.

As we know, there are different types of research: academic, basic, and applied. I think that a good point of departure for practitioners is basic research. We have been too focused on applied research. If we have good basic research, we will be able to look for innovative solutions for practitioners. The problem is the lack of ground-breaking innovative research for management. Managers prefer solutions to pressing problems instead of anticipating new challenges in the future.

**Larissa Winter, CEEMAN Director,
Slovenia/Austria**

As a person who has spent the past 15 years in a business environment, I will be very short and precise. I think that most of the people in this room agree that research is one of our key activities. On the other hand, the main goal of a business school is to develop future business leaders. Many practitioners in

the field of business feel that management research is too abstract and irrelevant to what they are doing. My first question is what can be done to make that research more relevant. In answering this question, it is important to consider to whom the research should be relevant and in what sense.

We all know that to meet customer expectations, we need to satisfy their needs. At the very least, we have to speak their language. I agree completely with Olga: research papers are very hard to read by people who are not from an academic environment. My second question is how a research paper can be made readable by both academics and business practitioners.

My third question is related to the use of research and its outcome. I think that there is a contradiction here. Researchers have their own interests and agendas. They are eager to learn something about new issues and discover some pattern. But is that really what customers expect? Also, management research tends to focus more on knowledge, whereas businesses focus on decision-making and expect short-term pay-offs. How can this contradiction be reconciled?

I have also noticed that some business leaders perceive research as an indication of a lack of experience in a business environment. In their view, it has too narrow a focus on analyzing things. If scholars and executives cannot see the world in exactly the same way, can they at least look in the same direction?

I would like to conclude with another personal observation. We should be modest in our expectations of how much research can be accepted by business. I think that management research is just one source of information that business leaders use in their practice.





**Ilyas Ciloglu, Dean of Business Faculty,
International Black Sea University,
Georgia**

I have three questions as well as some remarks about management research. Some of you may know that universities in Georgia are defined as research universities or teaching universities. For an institution to be a research university, it should have three levels of education:

bachelor, master, and doctor. It should also publish articles in peer-reviewed academic journals.

What problems do we face in terms of publishing in Georgia? We have faculty members and invited professors. The latter teach at different universities and have some 30 classes a week. They do not have time to write articles. There are many universities facing this problem. To deal with it, they have to increase their faculty membership.

Another issue is that it is hard for a professor in this part of the world to get information. When you visit a company with a survey, it is not easy to get answers. They prefer to stay silent. For instance, I tried recently to survey companies in the hospitality sector and they were not exactly enthusiastic about that. They do not always see what is in this activity for them.

We have different incentives to encourage our faculty members to publish articles in scientific journals. If they get an article published in a leading journal, they receive a good amount of money for it. There are articles right now on my table whose authors are waiting to be evaluated and paid. I think that this is one of the ways to deal with this issue; we should provide more incentives to our researchers.

Another issue that we need to address is cross-border cooperation. CEEMAN can help a lot in this field. I know that there are many professors working in different areas. It is good to know who is working in what field. Then, cross-border partnerships can be formed on the basis of common interests and articles can be written and published jointly.

We should also consider sharing resources. For example, there are many electronic libraries, like EBSCO, that can be shared by universities in our region.

We also need to discuss how we can convince managers that management research is important. They think that they know the market because they are close to it. How do we demonstrate to them that our research can teach them something in addition to what they know?

Panel: Do Business Schools Have and Build the Right Faculty to Meet the Future?

Irina Sennikova, Rector, RISEBA - Riga International School of Economics and Business Administration, Latvia

We have reached the final stage of the conference and it seems that everything has been said already. The issues that I am going to talk about have also been mentioned. But to me it is indicative that this session on faculty is the last one. Whatever we do as managers and leaders of management institutions, if we do not have appropriate faculty, all our efforts will be in vain. We will not achieve anything.

At the beginning of this conference, Danica Purg asked if we were ready for the future. The answer is that probably we are not. What can we do about that? This is what we are going to talk about during this session.

I would like to tell you a couple of words about the school that I come from. I come from RISEBA - Riga International School of Economics and Business Administration. That is how we were established 19 years ago - as a business school. But now we would like to be a university. We provide education in business, media, and audio-visual studies. This academic year we also launched a program in architecture.

We have been asked why we are doing this. The answer is not to be found in a business rationale. We are doing it because we believe in bringing together business and the arts, forming synergies between them. We want to enhance the creativity of business students while providing those in the arts with business expertise.

This year is the 19th anniversary of CEEMAN. My school is also 19 years old. If somebody had told me 19 years ago that today I would be sitting in the same panel as a distinguished IMD professor, discussing the same issues, I would have never believed it. I want to thank CEEMAN that we have achieved some tremendous progress 19 years after people in our countries did not know what management was.

We had lengthy discussions on what students need and what we should do to teach them well. I would like to quote Peter Kraljic who spoke on this yesterday and said that this is about new skills, explanations, and values. In my view, one of the key success factors in a modern economy is the ability to learn, create, and innovate: the ability of human being constantly to create new things. I also believe that it is vitally important for our students to possess entrepreneurial skills as well as leadership.

Talking about leadership, it is very important not to forget the concept of followership. We all have to lead at some time of our lives but at other times we have to follow. Sometimes, we have to switch roles within one and the same day.

Of course, we want to prepare responsible managers, thinking of business ethics and sustainability. Significant time should also be devoted to self-



reflection. But how do we teach these things? Some speakers yesterday said that the focus should be on learning, not teaching. This is one of the first things that I tell my students when we start our course in leadership. We discuss the question of whether leaders are born, made, or educated. This brings up the question of whether leadership can be taught. I tell them that it cannot be taught but it can be learned.

Creativity is essential but it does not lie within one discipline. A multidisciplinary approach is a key issue. I think that creativity and out-of-the-box thinking can be taught by bringing students into different contexts. It is important that we provide different contexts in the classroom and outside. For example, we combine cases with sports and mountain-climbing. This enables the students to immerse themselves in different critical situations.

It is sometimes said that entrepreneurs are born with the skill of knowing how to sell to people. I do not think that this is true. It is important to see what experiences they have had since their childhood. They were not born entrepreneurs but they were exposed to different situations and the influence of different people. Therefore, we should not underestimate the role of the professor in the classroom.

But it is also important to understand who our customers are. The new generation lives in social networks. If you cannot meet our students in the classroom, you can meet them in one of the social networks. This generation is also very diverse. It consists of children born to teenage mothers but also to mothers who have professional careers. Sometimes we are shocked and frightened by the smartness of the students of this generation. They are under strong pressure to succeed. They lack interpersonal skills because they deal mostly with computers, far less with people.

Who are our professors? All schools have good ones and some that are less good. Professors are individualists by nature. They are masters in what they do: working in a classroom. They are very discipline-oriented. And they do not like change; they resist to the last moment.

We have to admit that professors are aging and, as a result, they lag behind students in technical skills. I read in an article once that one professor said that as he aged he became intolerant of his students. He worked well with those who did what they were required but was impatient with the rest.

It is interesting that in this age of plentiful information, professors are protective of their know-how. They believe they have a copyright on their knowledge.

Another issue is that in our countries we still have a lack of foreign language skills, especially English language skills. It is challenging to motivate people to learn languages.

Quite often, professors see their role narrowly. They think that it is confined to the classroom and does not have anything to do with any out-of-classroom support, such as finding clients.

What can we do about all these issues? The first thing for a business school is to have a clear faculty development policy. We often meet professors at various forums and we want to invite them if they are good presenters. But it is important to be consistent. It is vital to involve the faculty in both internal and external faculty development programs. Unfortunately, we often underutilize internal resources although it is possible to set up seminars for faculty and offer language training. Sharing knowledge in this way is quite important.

There are also plenty of external faculty development programs. I have participated in three of them. One was at IESE, Barcelona. Another was at Harvard Business School. The third was CEEMAN's IMTA (International Management Teachers Academy). Let me tell you a couple of things about IMTA without trying to sell it to you. I really appreciate the fact that I have been through the training programs of IESE and Harvard but I keep sending my faculty to IMTA, even in times of crisis. Last year, I went there myself, unfortunately only for one week. I will be sending more people every year. Compared to other programs, IMTA gives you an opportunity for reflection. It is not just about pedagogy and methodology. It makes you spend time reflecting on who you are as a person and as a teacher, what you bring to the classroom and how you can use that to transform your students. All our faculty members who have been through IMTA behave like change agents and are

seen as such. I really believe that this program is a very good tool for faculty development.

We also need to look for young potential. Why do aging people dominate business schools? One reason is that younger people see better opportunities outside the academic world. They can make more money in business and they probably do not realize how rewarding a teaching job can be. We need to provide this experience and show to them that they have an opportunity to grow in the academic world.

We also have to build partnerships with our faculty. In this way, the institution will benefit from their knowledge and skills but on the other hand the faculty will be able to grow and, if they have a genuine desire, they will move forward.

Aging professors do not need to be a burden; they can be an asset to the institution. They can team up with younger ones and provide mentoring and coaching, whereas the young generation can share their technical skills with them.

I know that IMD Lausanne does not have any departments but most of our schools do. Facilitating the communication between the departments is very important. It is also essential to involve our faculty in partnerships with different institutions. When we were developing a PhD program, we decided to do that with two other Latvian institutions. In that way, we ensured that we would have better faculty to provide quality for the students. We are also preparing a program in healthcare management with a medical university in Latvia. They are contributing professors of medicine, whereas we have professors of management.

Another important thing is a supportive work environment. People have to like the place where they are working. A good organizational culture will appeal to the faculty and involve them in the organization's activities.

Building the brand of the institution is also essential. People like to be associated with an institution when they are proud of it. Therefore, brand management is an additional tool that can be used in faculty management.

Jim Ellert, Emeritus Professor and former Associate Dean of Faculty, IMD, Switzerland, CEEMAN IMTA Academic Director

It is a pleasure to be here with you. I do not have a formal slide presentation. I am just going to share some thoughts with you informally.

I think that we are better in meeting this panel question in degree education rather than in executive education. Within the latter, we are better in open programs than in custom programs.

During this presentation, I will try to identify opportunities, mainly in terms of faculty selection and recruitment, nurturing of faculty, retaining faculty, and leveraging faculty as the scarce resource that we work with.

To provide context, let me say some words on the evolution of business school portfolios over the last 100 years. Typically, we started with degree programs, such as undergraduate or MBA programs. Quite soon, we saw a migration into open executive education programs. These types of business education programs have existed for close to 100 years. In-company programs, often called "customized education", did not become a significant slice of the pie until the early 1980s. We have seen significant growth in this particular segment in the last 20-25 years. Today, we view undergraduate and MBA business education as relatively mature commodity products, and we tend to look for growth in executive education.



Meanwhile, there have been significant structural changes, at least in my view, in executive education over the last 20 years. The first trigger was the global recession in 1991-1993. That was the deepest recession prior to the current one. In the wake of that recession, we saw a mindset change in terms of demand for executive education. Increasingly, we heard companies talk about return on investment or direct benefit to the company, rather than educating individuals. That was a major shift.

There has been a second structural shock since 2008. As we entered the recession, demand for executive education, particularly in Europe, dropped sharply, roughly by 30 percent. In 2009 there was a balance between lowered overall demand for open programs and in-company programs. Many in-company programs were deferred: companies preferred not do those programs for cost reasons or for internal signaling – not good to fund programs when we are laying off so many employees. Three years into the recession, we have noticed that in-company demand has risen. In many schools today (particularly in the lower-priced program offerings), it is above the levels that we saw in 2007.

Yet, open program enrollments are not increasing. What we see here is a structural change rather than something that we can attribute to the current recession. Companies (as in 1991-1993) are more focused today on direct company return on investment rather than personal employee development. Fewer companies are sponsoring employees for EMBA and other long open programs.

We have also seen a shift within custom programs in terms of mandates or requirements. In the 1980s, we were doing mainly functional programs. In the aftermath of the 1991-1993 recession, we were dealing more with company-focused change management programs. Also, there was a need to shorten the market demand time need to actual classroom delivery time. Speed of program design and delivery are becoming more important key success factors in our industry.

As we moved into the mid-2000s, we got more involved in “catalyst programs”. These are typically programs in which we work with the most senior of the executives. Faculty play the roles of facilitators in these programs. We do not lecture and we do not really do consulting. We facilitate the process of getting senior business executive teams to reach decisions related largely to strategic choices and implementation requirements.

What does this mean for faculty composition and selection? In custom programs, we tend to be overweight in leadership, change management, and strategy demand and requirements. We do not do much in accounting and finance or the other traditional functional areas. Increasingly, we need facilitation skills. Unfortunately, only a minority of our faculty are good facilitators. Great case teachers are often not great facilitators. It strikes me that when we recruit faculty, we do not take the need for faculty facilitation skills into account seriously.

I think that schools with rigid departmental systems, particularly those that have slot systems (number targets by discipline), are compromised in their efforts to get faculty that can do custom education. It is a little bit like drafting athletes for a sports team. You can draft from need or you can draft the best person. With departmental systems, we tend to draft from need rather than select the best person available. I believe that if you hire great people, you will find demand for their services. Therefore, I prefer to draft not from need but on the basis of quality and potential to create demand for their services.

I agree with Irina that we can do a better job in degree program designs. There should be more emphasis on business ethics, sustainability, and social networking. In a MBA program, these should be mandatory rather than elective courses.

The challenge in this respect is twofold. First, faculty supply in these areas is relatively small. Second, the emerging disciplines highlighted by Irina do not fit well into conventional departmental boxes. Departments, of course, will try to protect their historic faculty slot allotments. Business school leaders who can resolve this dilemma quickly and effectively will have a significant advantage in meeting future market demands in our industry sector.

I think also that we can do a better job at mentoring new faculty in order to accelerate their progression into executive education. Why not have young faculty sit in the classes of experienced teachers so that they can learn from that experience? Why not find good ways to compensate good teachers for mentoring the new faculty? What I mean by mentoring is more than the casual chat. I mean working intensively with new faculty on individual lesson designs, attending their classes, and providing feedback afterwards.

We should recognize and reward relevant practice-based research more than we do today. We should also emphasize sharing of expertise and teaching materials between faculty members. I am concerned about the salary structure that we see at many schools. We hire new people at rates that are greater than those of more senior people. This is a market phenomenon and a market response but it is highly divisive. I advise you strongly not to get into that pattern. It works against faculty team-building.

The typical starting point for schools that are moving into executive education is to pay separately for this. Typically, this is done at rates that are higher than the rates for teaching and doing other activities at the school. At IMD, contracts specify the number of units that a faculty member teaches during the year. Then, we offer to pay for additional teaching units but at a standard payment rate that applies to all faculty. We call this “buy back” because it was initially sold as a way to buy back time for faculty that they would otherwise devote to consulting that in our case, would require travel and cause other inconveniences. In my view, buy back will become more common in the future. It is typically less expensive than paying high rates for executive education faculty assignments. Schools who adopt this form of extra faculty compensation do not normally pay pension benefits on buy back; it is excluded from pension consideration.

There are two risks with buyback plans, however. One is burnout, which happens if the faculty members are teaching too much. The other is a drop in their research activities. But I think that we can be clever even here. For example, we could provide additional faculty R&D support (internal funding, instead of direct payments, to faculty who accept teaching overloads to meet executive education demand).

Custom education normally requires more facilitation and coaching. One question that I have here is whether we can recruit non-faculty professionals to do some of this work. I think we can.

We can also gain leverage by sharing of teaching materials, including presentation materials. What this requires is a faculty team culture rather than a “me, me” culture.

I think faculty members spend too much time doing administrative work. Do we need so many committees? Can more of that work be transferred from faculty to professional staff?

In summary, I think that we are better positioned to meet future needs in degree education than in executive education, particularly in the area of custom-design programs, which is likely to be a major growth segment. Yet, I think that we have opportunities to improve our practices to meet these demands.



**Sergey Mordovin, Rector and CEO,
IMISP - International Management
Institute of St Petersburg, Russia**

I have been in the business of business education for 22 years. Our school was founded 22 years ago with a focus on executive education. Interestingly, it is rare to meet executives in such education. The focus of our activities is on practitioners. Last year, we killed our

Bachelor of Business Administration program.

I believe in full-time faculty. I also believe in core faculty. If a school does not have some core faculty, it is doomed. It may be profitable for a while but it cannot be sustained long-term.

Irina started her presentation stating that we need appropriate faculty. I agree. What is appropriate in our case? Every school should define what it is doing at the moment, what it will be doing long-term and what kind of factors determine what is appropriate. It is very clear to me that a professor who is very good in a first-degree program cannot do equally well in an executive program and vice versa. Also, a very good researcher is not a very good teacher as a rule. These are different fields that require different faculty.

A question that I am interested in is how a business school can design the ideal profile of a faculty member for a specific purpose. I am not looking for a brilliant lecturer or a brilliant trainer. I am looking for a person who can do many things. Once Prof. Derek Abell was advising us on how to build a better business school. He said to me, "Sergey, you have a marketing and sales department. A good sales representative can open a deal with a potential customer but he cannot close it. Only a faculty member can successfully do that. The reason for that is that the product that you are selling is too complicated for somebody who is not an expert in it." There are good professors who do not want to be involved in commercial activities. That is fine but they are not good for us as full-time faculty. He could come as a visitor or we could hire him part-time, but we cannot offer him a full-time job.

Likewise, if a professor cannot answer a practical question from the audience in executive training, he is not good for that audience. He can teach on a bachelor's or master's program but not in executive training.

I do not believe in junior faculty who have just graduated from a master's program or even a PhD program. This does not make them excellent professors in executive education. First of all, we want experienced people with a very good background. It is well known that one can be good in a profession only after spending 10,000 hours in it. Only after you have spent years in the classroom, can you understand the needs of business.

We also want a good MBA from the top-ten Western business schools. I am sorry to say that, but those schools up to now are situated in the West.

As far as research is concerned, my school does not pay for writing articles but for reading articles. You should read new ideas. There are plenty of brilliant researchers, especially in the United States, who are well-paid for their research. Serious research takes serious money. It is important to be involved in research, but as far as we are concerned, it is more like intellectual training.

Once we appoint somebody full-time, they never leave us. Why? First of all, they are not interested in business. They think business is boring. Then, they are well-paid even though we pay less than business. We also want them to be involved in the market and draw new ideas from it; this is intellectually stimulating.

At our school we have a rule that forbids full-time professors to teach elsewhere on their own. Exceptions can be made if they are invited to IEDC-Bled School of Management or London Business School because these are not our markets, but our faculty may not teach at the schools that we are competing with.

Paata Brekashvili, Professor, Caucasus University, Georgia

In my view, when we tackle the topic of this panel, we need to consider some special issues. Where are our faculty coming from? What type of institutions have they worked for earlier? Are we hiring them part-time or full-time? Should we hire them when they are at the beginning of their career, probably right after their doctorate, or should we aim for more experienced people?

The question that I have for the panel is whether doctoral programs and the experience that we require really matter? Do they produce a cumulative effect?

I have seen a lot of people coming from doctoral programs. The best of those programs train their students how to do research and write good papers. Then, we hire the graduates and ask them to be not only good researchers but also good teachers and possibly good consultants as well. So, what should a doctoral program be like in order to provide all the knowledge and skills that the graduates will need when they take a teaching job at a university?

We heard during the previous discussions that if you are an excellent researcher you may not be a great professor. Do our doctoral programs prepare people for both domains?

We all agree that faculty members need energy to feel motivated as researchers and teachers. Do we have all the required energy?

To sum up what was said during this conference, we are people who collect existing research and try to create new knowledge. Do we know what new knowledge is really needed?

My third question is why we should care if we are good faculty or not? Is it for the branding of the institution? Is it because the students care? I think they do because they buy our knowledge. But do we really study the future needs of our customers in order to be good faculty? I think that being good faculty today is not enough. We need to be able to forecast the needs of our future customers.



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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

The main activities of the association include:

- International conferences
- Educational programs to strengthen teaching, management, and leadership capabilities in management schools
- Case writing support
- International research
- Publishing
- International quality accreditation of business schools

CEEMAN has 200 institutional and individual members from 50 countries in Europe, North America, Latin America and Asia.

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Caucasus University was established in 2005 on the basis of Caucasus School of Business and is one of the most prominent higher educational institutions in the South Caucasus Region. Nowadays Caucasus University has seven schools: School of Business, Law, Media, Technology, Governance, Humanities, and Tourism.

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