
Fundamentals of Market Economics: Junior Achievement International's Newest Venture

JAMES E. DAVIS

The breakup of the former Soviet Union, the democratization of Eastern European countries, and the emergence of market economies in the former Eastern Bloc have been called unexpected historic developments. After forty-plus years of thinking based on a mindset of military deterrence and political competition, the United States and its allies are now thinking about other problems. One of the foremost is how to help former Eastern Bloc countries make the transition to market economies. While governments are discussing this problem, two private sector groups are taking action.

Junior Achievement International Initiates a Beginning

With funding from the Soros Foundation of New York, Junior Achieve-

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ment International (JAI), based in Colorado Springs, Colorado, is helping to meet the challenge of changing the economies in the former Eastern Bloc. In December 1993, armed with a preliminary outline of a market economics training program targeted to lower- and middle-level business managers in newly privatized and joint venture businesses, and under the sponsorship of JAI and the Soros Foundation, I visited business leaders in the Czech Republic and Ukraine. While I was in the Czech Republic, I met with leaders of Prague Holding, a former state-owned heavy equipment company; Rank Xerox, a British joint venture operation; and K-Mart, which hires many of its managers locally. In Kiev, I met with the U.S. Department of Commerce commercial attache, a small publisher, and staff of the International Management Institute. In all, I talked with twenty-five business leaders in the Czech Republic and fifteen key people in Ukraine. My major concerns were whether the proposed market economics training program, called *Fundamentals of Market Economics* (FOME), would begin to meet the training needs of lower- and middle-level managers, and if not, what Junior Achievement International could do to meet those needs.

I should emphasize that the target audience for FOME is lower- and middle-level managers, not business or economics students. The directors of the companies I interviewed believe individuals in these management positions are key in making their companies successful in market situations. In addition, these managers have the greatest influence with the most workers.

The Status of Czech Republic and Ukraine Economies

Before reporting the results of my eighteen-day inquiry, let me summarize the status of both economies, to the extent that this is possible. It should be noted that the methods of economic data collection in former Eastern Bloc countries are not entirely consistent with the methods of Western economies. Hence, both privately and publicly reported information is somewhat suspect.

In terms of privatization of businesses, it was reported that the Czech Republic had privatized more than 22,000 businesses by mid-1993, with more privatization to come. I spent two interview sessions with key directors of Prague Energy, the largest electric power producer in the Czech Republic,

which was being privatized as of January 1, 1994. At the time of my visit, it was uncertain whether Prague Energy would remain one company or be divided into several separate businesses. In Ukraine, there seemed to be more talk than action concerning privatization, especially the privatization of large industries. A management professor in Ukraine told me, "We are being held hostage by managers of large, former state-owned firms. They refuse to share their expertise." If this statement is true, the upshot will be very slow—perhaps nonexistent—privatization in Ukraine.

In the Czech Republic, it was estimated that gross domestic product (GDP) might grow slightly by the end of 1994; whereas in Ukraine, GDP had fallen 18 percent in 1993 with further decreases coming. Inflation in the Czech Republic was about 30 percent in early 1993 and falling. In Ukraine, inflation exceeded 300 percent and was rising rapidly because of the printing of excessive amounts of "coupon" currency. Unemployment in both economies was reported below 5 percent, but many respondents indicated that some of what was reported as employment was inaccurate because people were actually working part time or being paid a fraction of a former full wage.

By observation and from general discussions with business leaders, I could see that the market economy was at a "takeoff" stage in the Czech Republic. Such was not the case in Ukraine. As a matter of fact, there was only scant evidence of optimism about the Ukrainian economy.

Summary of Views about Market Economics Training

Against the backdrop of two countries at different stages of development with respect to instituting market reforms, the interview results with business leaders were remarkably similar. One of the most insightful observations came from a vice president of Andersen Consulting in Prague. He pointed out that instituting market reforms meant overcoming more than two generations of state control of the economy. The

implication, of course, was that any kind of market economics training needed to assume a long-term view of success. There could be no quick fixes. He pointed out that the profit motive, and hence the organization of a business for efficiency, was not part of the thinking of the management of former state-owned firms. He also underscored the need to help managers orient their thinking toward customer satisfaction, both in product planning and in providing customer service—an orientation virtually unheard of under state domination.

Almost to a person, business leaders in both the Czech Republic and Ukraine stressed a focus on the basics: What is an economy? What is a market economy? How do production, distribution, and consumption work in a market economy? What are the roles of prices in a market economy? Is there an appropriate role for government in a market economy and, if so, what is it? What are appropriate management practices? How should productivity be measured? How do marketing and sales occur? Why keep records? and How does double-entry bookkeeping work?

In addition, most business leaders wanted a focus on business ethics. As they had moved their organizations toward a market orientation, they had become frustrated with the lack of understanding of a standard of business ethics. One business leader shared a story about a clerk who had been responsible for opening the mail and distributing fax messages. The clerk knew that information in a business was powerful (under state domination) and had decided to withhold distribution of certain letters and faxes, trying to establish a more powerful position in the company. The clerk did not realize that timely mail and fax information in a competitive environment means gaining a competitive edge, as well as providing timely products and services. In another case, it was reported that a manager felt it was most appropriate and acceptable to hire a niece or nephew, regardless of qualifications for the position. The manager had little concern for productivity, which is a

market-oriented concept. Other stories involved employee theft, kickbacks to vendors, and cutting corners on product quality. The business leaders acknowledged that ethical considerations regarding information control, nepotism, employee theft, and kickbacks were not part of a "new" culture of their businesses. They acknowledged that these practices were generally accepted in a state-run economy and that few employees would think them inappropriate or wrong.

Finally, the business leaders, some of whom had been "burned" by Western training companies offering quick fixes, wanted the training to be active and practical in application. They pointed out that lecture and recitation for their relatively well educated, but technically oriented, managers would not be helpful. Rather, they indicated that trainees would do the necessary reading outside the training sessions and that the sessions should focus on the application of knowledge to practical problems, small group work, and engagement with ethics case studies. Almost to a person, the business leaders supported the approach being taken on FOME. Moreover, they very much appreciated being asked for their advice.

Features of Fundamentals of Market Economics (FOME)

As a result of the interviews, FOME is organized as follows into four clusters or units of instruction: Cluster A, The Market Economy, Cluster B, Business in a Market Economy, Cluster C, Product Creation and Development, and Cluster D, Product Support. The focus of Cluster A is on the fundamentals of how a market economy works, the role of government in a market economy, and an introduction to business ethics. Cluster B examines the importance of the customer, the nature and structure of the business firm, and management practices. Cluster C explores product planning, production, marketing, and sales. Cluster D treats elements of business law, record keeping and financial accounting, and the

provision of customer service. Each cluster includes either four or five two-hour instructional modules, with a total of eighteen modules in the course.

Readers should note that the course structure quickly moves from a conceptual introduction to market economics to a practice orientation that includes the nature of the firm in a market economy, the nature of a product and production, and product support. Although the company leadership applauded some conceptual treatment of market economics content, they wanted a heavy focus on how a business firm operates under market conditions.

Work-a-Text Format

The modules are organized into a loose-leaf notebook format, with the English version on a left-hand page and the appropriate translation on the facing, right-hand page. Module reading asks for participant responses to practical challenges, such as writing down the consequences of a decision, identifying the characteristics of a firm's customers, or creating an employee perfor-

SOURCES OF ADDITIONAL INFORMATION

The status of former Eastern Bloc countries is changing rapidly. Hence, a reader should rely on current articles in such publications as the *New York Times* and the *Swiss Review of World Affairs* for up-to-date information. The two books listed below can provide readers with good background information:

Engholm, Christopher. 1994. *The Other Europe: A Complete Guide to Business Opportunities in Eastern Europe*. New York: McGraw-Hill.

Batalden, Stephen K., and Sandra L. Batalden. 1993. *The Newly Independent States of Eurasia: Handbook of Former Soviet Republics*. Phoenix, Ariz.: The Oryx Press.

For additional information on the *Fundamentals of Market Economics* project, readers should contact David Loose, Junior Achievement International, 2780 Janitell Rd., Colorado Springs, CO 80906, 719/540-6300.

mance assessment form. In addition, the narrative within the modules often asks for written responses to questions or problems to reinforce content. The open page design of the modules provides ample space for participants to take notes or write down questions as they occur.

When all the modules are finished, each participant will have his or her own completed text. The text can be referred to from time to time, and information in it can be shared with employees by managers.

Computer Simulations

Two computer simulations are used in FOME. The Management and Economic Simulation Exercise (MESE) offers teams of participants the challenge of running their own company in a competitive environment that simulates the world of international business. In the MESE simulation, participants make strategic business plans and analyze the effects of resulting decisions on their own company and the rest of the industry. The MACRO-LAND simulation presents economic policy teams with the challenging task of developing economic policies for a mythical republic. Each team develops economic policy measures, such as a change in tax rates or rates of interest, in response to stated macroeconomic conditions. Based on the simulation model, the computer reports how well the policy decisions contribute to economic prosperity, employment conditions, and price stability. Perhaps the most important aspect of the computer simulations is that participants can feel "safe" in engaging in them in a classroom setting.

Business Ethics

Following an introduction to the dimensions of business ethics early in the course, most subsequent modules include a business ethics case study. These short ethics cases focus on such issues as hiring practices, product quality control, (mis)use of insider information, deceptive advertising, and accu-

rate information reporting. Throughout, participants are encouraged to share their own ethics issues and information about how they have resolved or not resolved them.

Active Learning

Following the philosophy of Junior Achievement International that the most effective learning occurs when participants are actively engaged with course content, FOME training sessions are designed to include at least two individual or small group activities, in addition to participation in the computer simulations. Included, for example, are a paper-and-pencil market simulation, an effective communication role play, and a task to create a market survey—all practical activities for a business situation. From time to time, it is anticipated that the FOME training sessions will include speakers who have specialized knowledge in business practices (e.g., sales, record keeping, dealing with customer complaints).

Next Steps for FOME

The English version of FOME was completed in early June 1994. Junior Achievement International and the Soros Foundation are collaborating on translating the course materials, publishing them, and deciding on how to proceed with training on this "field test" version of the course. The bilingual trainers (English and a former Eastern Bloc country language) began to be trained in the use of FOME in late fall of 1994. Training of the target audience was scheduled to begin in early 1995.

Both Junior Achievement International and the Soros Foundation have established a network of offices throughout Eastern Europe and the former Soviet Union. A major goal of both organizations is to assist people and businesses in emerging market economies to become successful. This effort is a small but a potentially very powerful illustration of the private sector sharing its expertise on a worldwide basis.

APPENDIX

A sample from the course on the fundamentals of market economics is presented below.

THE ETHICS CASE STUDY

Throughout the *Fundamentals of Market Economics* course, participants are confronted with hypothetical ethics case studies which were developed in collaboration with the Ethics Resource Center, Washington, D.C. When considering an ethics case, trainees are challenged to address the following questions: Who are the stakeholders in this case and how are they affected? What are the possible options for resolving the situation? What is fair, given possible decision options? How are the people involved accountable in this situation? What is legal? The case that follows is illustrative of the cases in the program.

AN INTERNAL PROBLEM

Sergei (sales manager) knew he needed to meet with the senior management team as quickly as possible to discuss how they could produce a 20,000-case order for Megastores. He scheduled a meeting for the following afternoon.

Once the senior management team had assembled, Sergei opened the meeting. "I

have wonderful news. Megastores has decided to carry our Sudz detergent. They're even going to put Sudz on special sale."

The management team applauded.

"But there is one problem," Sergei continued. "They must have 20,000 cases by next month to include Sudz in their grand opening sale."

Jan Kodes (company director) gave a low whistle. "But how can we come up with 20,000 cases by next month? You know we're having equipment problems, Sergei, and production is down to a trickle. At our current rate of production, there is no way we can deliver that many cases in that kind of time frame."

"Look, Jan, I don't see that we have any choice. Can't we put the workers on double shifts to do whatever it takes?" Sergei asked.

"We can't afford to pay for double shifts, Sergei. You've seen our latest financial statements. I know how important the Megastores account is, but I just don't see how we can deliver. We could possibly produce 12,000 or even 15,000 cases by next month. Isn't that enough for their sale? Certainly it can't make that much difference."

Sergei sighed, "I doubt they'll go for it. They'll want to ensure that they have enough product on hand to meet the needs of the sale. If we can't deliver all the cases, they'll probably tell us to forget it. And we can't afford to lose this account."

Katja, the head of finance and accounting spoke up. "What about those 7,000 cases we've got in inventory? It sure would be nice if we didn't have to keep carrying them on the books. Sooner or later we'd have to write them off and take a loss."

Klaus, the director of Research and Development, shook his head. "Katja, you're forgetting that much of that product hasn't been shipped because it may have been damaged when moisture got into the store room. Besides, it's been in there so long now that some of the powder has probably formed into lumps, some of which could be rock hard."

"Couldn't we do a visual inspection to see which cases were damaged by the moisture, then maybe open a few boxes to see if the powder has hardened?" asked Sergei.

"Yes, but while visual inspections and spot checking will reduce our chances of shipping defective product," Klaus said, "it won't eliminate the risk."

"But Klaus," Jan argued, "the product is not really defective. The cleaning power of the detergent wouldn't be affected. It will just be less convenient for the consumer to use. She'll have to break up the clumps of powder. And let's face it, most Montrovians are used to doing that anyway. I think Katja's suggestion is a good one. We get rid of inventory, the customer gets the 20,000 cases, and the consumer gets the product on sale. I say it's a good plan, but what do the rest of you think?"

The United Nations' 50th Anniversary Celebration

The United Nations came into existence on October 24, 1945, with the ratification of the Charter of the United Nations. The Charter was drafted by representatives from 50 nations who assembled in San Francisco at the United Nations Conference on International Organization as World War II drew to a close. Under the terms of the Charter, this document is kept at the National Archives in Washington, DC.

In commemoration of the United Nations' 50th anniversary, the United Nations Charter is being displayed at the National Archives Building in Washington, DC, at the United Nations Headquarters in New York City, and at the M. H. De Young Memorial Museum in San Francisco.

For further information regarding programs and activities celebrating the 50th anniversary of the United Nations, contact:

Fiftieth Anniversary Secretariat, S-3194

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