Review of Business, Vol. 13, No. 4, Spring 1992, pp. 4 – 9

In Support of Reform: Western Business Education in Central and Eastern Europe

RAVINDRANATH MADHAVAN AND DANIEL S. FOGEL

The introduction of free market reforms in the liberalizing economies of Central and Eastern Europe is a process that has involved the help of Western governments and private organizations at various levels. One important area where the West has contributed to these reforms is in the training of a cadre of managers with the skills and understanding necessary for operating in a free market environment.[1] This training is a particularly important task as experience in educating young managers in these economies shows that most of them have little familiarity with the basic assumptions of market economics, let alone its intricacies.[2]

Consider one vignette from a discussion with a manager in a Czechoslovak company. The second author of this paper and a Czechoslovak manager were discussing ways to motivate workers in a factory. The manager was concerned with the low level of output per employee, so the author proposed a piece-rate pay solution. The manager responded: "This system would unfortunately allow some people to earn more than others. The workers have enough money to live on now, why do they need more money?"

Western educators seeking to introduce business education programs in Central and Eastern Europe do face unique challenges because of this lack of a basic cultural and philosophical understanding of free markets. This mismatch between Western management thinking and the socio-cultural context of Central and Eastern Europe is relevant to businesspeople who seek to enter that region. In this article, we shall consider some of these differences and show ways to help build a market-oriented cadre of local management.

A fundamental premise for working in Central and Eastern Europe is that transferring a business education program to a reforming economy involves more than just teaching its managers a specific set of skills. This transfer also requires a cultural and philosophical infrastructure that supports modern management practice.

The perspective we take to the transfer of business education, then, is broader than one which comprises only the transfer of a set of MBA or executive education courses. The transfer is a much larger process of initiating and institutionalizing social change to build a necessary infrastructure. Its focus becomes the creation or modification of values and attitudes, and the establishment and nurturing of new patterns of social relationships and actions.[3]

Consider one incident during a training program in Hungary in 1990. An Austrian auditor presented an hour-long talk to Hungarian managers on how he would provide a company with a valuation of their business. The managers listened intently and tried to follow this new information. For them, the concept of valuation was new and had only recently become an important topic. At the end of the talk, the auditor answered questions, one of which was: "Which ministry in your government conducts the valuation with you?" Another was: "How can you, as an Austrian auditor, give an independent valuation of our business? Don't you have to discuss your government's policy on Hungary before giving our management a valuation?" Such questions revealed the attitude that every business decision must be politically motivated.

Daniel S. Fogel is Professor of Business Administration and Director, Special Programs-Europe, at the University of Pittsburgh's Katz Graduate School of Business. He has been closely involved in establishing and managing two management schools in Eastern Europe, created through partnerships between the University of Pittsburgh and several organizations in Eastern Europe. Ravindranath Madhavan is a Ph.D. candidate in strategic planning and policy at the Katz Graduate School.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission. www.manaraa.com

Our experience with economic reforms in the region suggests certain needs for business education:

1. Public education is critical, especially during macrostabilization and price and market reforms. Public understanding of market forces is critical for the government as officials need the support of the citizens during very difficult times.
2. Company managers will need immediate information about the relationships between pricing and production, a relationship that was not very important in the command economy.
3. New forms of ownership, such as joint ventures, must be understood by managers. This form of ownership also means an understanding of Western business practices, since the joint venture partners will come from outside the host country, in most cases from Western nations.
4. Managers will also need to learn new ways to redesign their organization to operate more independently of the state.
5. A new cadre of managers will be needed to carry out the new business practices of the reform. A change in attitude will be initiated by the younger managers in each country.
6. The needs for education will change as the reform progresses, particularly as new partnerships are formed with Western Europe and the Far East.
7. Training of government officials and professional educators is as important as the training of managers.

Types of Business Education

Business management practices can be disseminated in a society through several complementary means to address these needs. We divide certain types of business education into *informal* and *formal* channels.

As businesspeople from the reforming economies begin to interact with their Western counterparts, an informal transfer of business management concepts has been taking place. Budapest is flooded each year with Western businesspeople discussing possible business investment with their Hungarian counterparts. These discussions tend to educate Hungarian managers in Western business practices, particularly in the types of conditions necessary for a market economy.

To cope with the competitive pressures of the world markets, managers in the emerging firms of Eastern and Central Europe will have to quickly adopt modern quality standards, technologies and management processes. This adoption will be motivated by the business requirements for investments and the internal training and development efforts of Western firms which enter into joint ventures in those economies. Similarly, those Western firms that operate in Central and Eastern Europe will stimulate further learning in the process of setting up companies. These informal channels have been powerful influences on market changes but are only effective to the extent that businesspeople happen to interact with one another.

Formal channels, on the other hand, comprise what has traditionally been understood as business education, i.e. the programs designed to transfer specific sets of skills such as an MBA program. The focus here is with the *formal* category of business education channels, not forgetting that both channels are needed for a successful transfer of information.

In order to quickly and effectively impact business practice in Central and Eastern Europe, management education through these formal channels must be introduced at various levels *simultaneously and synchronously* with the reforms. For instance, putting a few MBAs into the middle ranks of an organization where top managers and workers do not understand the free market paradigm may be counterproductive. A truly effective business education strategy will seek to introduce all levels of society to modern management precepts. With this objective, and recognizing the above needs of managers and government officials, we have identified seven major types of business education which are being, and must continue to be, implemented, in Central and Eastern Europe.

Executive Education: Most of the top managers in the emerging firms of the reforming economies are individuals who occupied similar positions in the state-owned enterprises of the command economy. In order to help them cope with the new realities of the competitive market, executive education programs aimed at this top management group are essential. The two most important education programs are financial accounting and an introduction to the market economy. Without the basics taught in these areas, few others would be understood. Other people with similar needs would be the government decision makers - both legislators and bureaucrats - who are responsible for creating the legal and regulatory infrastructure for free market operations. Here the single most important topic is the legal and incentive structure needed to attract and retain foreign investment.

MBA Programs: This most visible component of business education is aimed at providing well-trained management talent to the emerging enterprises of the region. In addition to equipping these new MBAs with analytical tools and techniques (which American-style programs do very well), programs in Central and Eastern Europe have to pay special attention to making them effective agents for change in their organizations.

Faculty Development: By far the most critical difficulty in the transfer of business education to the reforming economies is the lack of qualified, trained faculty to teach executive education and MBA programs. Thus a core objective from the early stages must be to develop a set of well-trained faculty who can not only teach business pro-

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission. www.manaraa.com

grams but also conduct research into business topics.

Undergraduate Courses: Business courses are necessary at the undergraduate level to ensure that employees at the junior level also have a rudimentary knowledge of market economics. This curriculum will most likely be developed in existing universities. Most important is an exposure to vocational skills necessary for performing new business tasks. New social science curricula are the focus for new courses, particularly in those universities where Marxist ideological training comprised students' entire social sciences education.

Business Courses in Accounting, Banking and other Professions: As professionals who will enter organizations in positions of responsibility, students of specialized technical disciplines, such as accounting, can also benefit from business courses that will familiarize them with modern management concepts. These professionals are part of the necessary infrastructure for new forms of ownership and privatization. In particular, professionals should be provided with training and a certification process to ensure that businesses have access to competent people.

School Level: As part of the broader process of social change, business courses should also be introduced at the school level. Fundamental principles of free market economics, for example, can be introduced to school children at an early stage as they will be affected by the free market in their work and personal lives.

Public Education: Educating the general public in the working of the free market is one of the most critical aspects of business education in the reforming economies. A key goal would be to make the public aware of the rationale behind the economic changes that are under way, and of their potential benefits to society. This task is unusually difficult under the seemingly chaotic conditions of the transition. For example, how do the politicians in power explain inflation and unemployment to a society that has never before experienced these market effects? Despite the difficulty, this education must occur early in the reform.

In the next few pages, we review case histories of two business education centers currently functioning in Central and Eastern Europe that are implementing these types of programs.

International Management Center, Budapest

The International Management Center was initiated in 1986 by the-then US Ambassador to Hungary, Mark Palmer and Sandor Demjan, then President of the Hungarian Credit Bank.[4] By October 1987, others joined the project, including George Soros (Open Society Fund), Adam Szilas (Szensor Consulting-Hungary), representatives of the Chambers of Commerce of Milan and Budapest, and the San Paolo Bank of Torino, Italy. Together they made up the initial partners of the joint venture, an entity that was registered in Budapest in November 1988.

The choice of Hungary as a location for the first market-oriented, private business school was obvious. The reform movement there was occurring rapidly, key government leaders wanted this type of training, and Hungarian managers were asking for help. Western support was available and Hungarian institutions, both private and public, were willing to put their money behind a quality school.

The partners appointed a Managing Director and a Dean who were responsible for running the Center. Each partner provided cash, in-kind contributions and future pledges. The money was both in local and foreign (convertible) currency.

IMC is now located on a four-and-a-half acre campus with several buildings. It offers executive courses that last two days to two weeks, a part-time MBA program called the Young Manager Program, consulting services for in-house training or business consultation, and an extensive English and Hungarian language library. Programmatic goals are (1) to promote the use of market economy skills to enhance Hungary's position as an effective and responsive participant in international business; (2) to strengthen the status of business management as a profession; and (3) to transfer management teaching techniques and information to Hungarian professionals.

IMC looks like a miniature version of many high-quality business schools in the United States yet it operates within a very foreign context. The Center has a faculty of well-trained educators who teach executives and MBA students and who conduct original research. The school has a library dominated by English-language material that is designed to support the research and MBA program. The students in the MBA program are admitted based on standard tests including the Graduate Management Admission Test.

IMC also has features that distinguish it from Western business schools. IMC has several affiliated universities that provide support for its varied programs. Each university has its special role. York University in Toronto, Canada, houses some of the Canadian funds to support IMC and is the primary link for Canadian faculty and Canadian businesses. The IMC's links with the two major local universities, Budapest University of Economics and the Technical University, are important for sharing professors and for joint research on the Hungarian economy.

The University of Pittsburgh provides the most extensive support for curriculum and faculty development and is IMC's leading partner. The University of Pittsburgh supports the Young Manager Program by providing faculty, curriculum, credits towards an MBA degree, scholarships for IMC students to study at the University, the administra-

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission. www.manaraa.com

tive infrastructure for a degree program, and faculty development for the Hungarian professors.

The University of Pittsburgh's commitment to the IMC was a combination of reactive and proactive decisions. IMC needed to have the support of a prestigious and willing academic partner. An extensive search for a partner led to five universities. The University of Pittsburgh was approached because of its high quality business program, extensive international ties and international programs, and the willingness of the administrative staff to commit resources to a new and risky venture. The University was proactive, as well. The business school was looking for ways to more fully internationalize its faculty and to create an innovative approach to international linkages. This search was largely a response to studies recommending improvements in the international business education offered to U.S. College graduates.[5,6,7,8,9]

The faculty of IMC works in teams. Each of the full-time Hungarian faculty works with foreign colleagues in a similar discipline. For example, the Hungarian faculty member of finance worked jointly with a finance faculty member from INSEAD. They taught executive courses in Finance for Non-Financial managers and Valuation of Businesses. They also conducted research on the development of capital markets, i.e., in the stock market in Hungary. Another pair of faculty developed an entrepreneurs' club, a third pair performed a quality management consulting job for a local manufacturing company, and more recently a pair of faculty consulted with a state-owned company, following the company's establishment of a joint venture.

One of the most unique aspects of the Center is its independent status from government bureaucracy. The organization's management makes its own decisions on curriculum, investments, students, etc. This independence is critical to the ability of the Center's management to say who teaches what to whom, and was also new to Hungarian companies and government leaders.

While IMC was training primarily Hungarians, executive programs include Soviets and managers from other countries in the region. West Europeans, Romanians, and some other Central and East Europeans are attending its 1990-91 Young Manager Program (YMP). The 1991-92 YMP program has 36 students, 7 of whom are Hungarian, 21 from other Central and East European countries and the rest from Western Europe and North America.

IMC's success in its first year can be measured by several accomplishments, such as forty-five executive programs, attended by over 1,000 managers; publication of over 15 case studies that catalogued Hungarian companies as they transformed their organizations; publication of a book on consulting and one on a comparison of Hungarian and Western accounting practices; graduation of 28 candidates from the first year's MBA class; MBA internships completed in 9 countries in 35 different companies; and eight international conferences held at IMC attended by scholars from over 20 different countries.

The Center did experience difficulties. For example, the Directors on the IMC Board were not equally informed, nor were they in agreement with the mission, structure, or financial conditions of the Center. This lack of communication and agreement took two years to surface, in part due to cultural differences among Board members about how conflict should be handled in Board meetings.

The Center was started as a joint venture, one rationale being that such a structure could take advantage of the favorable hard currency and tax benefits available through Hungarian joint venture laws. The principle reason, however, was to allow the Hungarians to place a Hungarian managing director in office. The joint venture laws in 1988 did not permit the appointment of a foreign managing director. In retrospect, the laws' benefits of use of hard currency and low taxation of profits did not offset the benefits of the present IMC legal structure, i.e., a not-for-profit foundation run by a foreign dean. This new structure permits increased fund raising and a better transfer of technology of management know-how.

The hired faculty were essentially untested and untrained in the new environment of IMC programs and practices. They proved to be excellent, with time, given their previous training. However, many long faculty meetings and one-on-one discussions would have been less acrimonious and more progress would have been made in the Center's first two years, had the faculty received more training from the IMC and the University of Pittsburgh prior to beginning its programs.

The most serious mistake of the IMC partners was not allowing the Dean to manage the Center from the start. The Board placed an inexperienced yet entrepreneurially-minded person at the head of the organization with the Dean in a subordinate position. The managing director was inexperienced in academic management and lacked the administrative skills to create a well functioning organization. The Board then introduced a dual leadership concept requiring joint signatures and responsibility. The tensions created by this situation resulted in the forced resignation of the managing director and the refusal of the Dean to apply for a second two-year term.

The IMC's independence was a high priority for all the founding parties. This priority translated into excluding the Hungarian government from any involvement in the development of the Center, which was a mistake, as official ties with appropriate government bodies would have helped IMC. For example, it is ineligible for most government-to-government aid programs because the Center is viewed as a private business. The IMC's independence has also excluded it from an important network of people and information. This lack of access has been offset by the ministers and government officials. Moreover, the IMC is

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission. www.manaraa.com

not prevented from receiving direct aid from foreign governments: the most notable support has come from U.S., Canada, the Netherlands, Italy and the United Kingdom.

The Czechoslovak Management Center

The Czechoslovak Management Center (CMC) was started mid-1990 by the Ministry of Industry and the University of Pittsburgh. The purposes of the CMC are similar to those of IMC, Budapest.

The Center is located approximately 25 kilometers east of Prague in a small town called Celákovice. The activities are housed within a 15,000 square meter building which includes, among other resources, 175 sleeping rooms, several seminar rooms, a board room, eight 30 person classrooms, four 60 person classrooms, office space for over 100 faculty and administrative staff, a 300-seat auditorium, and an in-house TV production facility.

Management course presenters from the west are occasionally puzzled by the audience's ambivalent reaction . . .

CMC is a much larger and more complex Center than IMC and is built on the experience of IMC. One important objective of the Center is to facilitate the training of the professionals who will teach the courses. Year one of the project included the selection and training of an initial group of Czechoslovak faculty. Each selected faculty member worked for three to six months with a western colleague at the colleagues' institution. The receiving colleague agreed to return to the CMC to teach and do research.

One of the most unique aspects of CMC will be its direct work with the government. The training and research that will be carried out by the Center faculty will directly influence the reform of the economy and government policy decisions.

Many of the same features exist in CMC that have been developed at IMC. However, the present curriculum for short-term executive courses will emphasize certain themes that respond to the immediate needs of Czechoslovak business people and government officials. For example, they will address the question, "What is economic growth?" The present view is that every commercial transaction is a zero-sum game; i.e., somebody is "ripping-off" somebody else or when somebody benefits, somebody loses. CMC will directly address the mutual benefits of economic growth and the moral dilemmas managers will need to resolve as the economy becomes similar to a free market. Another example of a course topic which addresses an immediate need of executives is the forms of ownership and the difference between owners and managers, a relatively new concept in Czechoslovak business and law.

In summary, the IMC, Budapest, and CMC, Prague, represent the two most unique management education facilities in Central and Eastern Europe. The joint teaching model, the independent status of the organizations, the quality and breadth of programs and the involvement of international sponsors all make for an excellent contribution to the emerging market economies.

What We Learned About Managers

Managers in both Czechoslovakia and Hungary have needs and desires similar to one another and to Western managers. However, we found several unique features in their mental make-up, which have implications for the design of education programs.

As Allen, Miller and Nath did,[10] we also found that the ties between individuals and the organizations have moral components in collectivist societies. Extremes of this value, in Romania and the former Soviet Union, will prohibit rapid change to a market economy. Hungarian managers are feeling constant pressure to both reduce workforces yet preserve the values and benefits of full employment. Managers are identifying a need to absorb unique managerial skills to cope with the job stress created by this pressure, coupled with the pressures of radically shifting economic and political structures.

The managers also need courses and experiences related to the *systems* necessary to operate in a market economy. Most helpful are courses and information related to financial, marketing, human resources, and operations systems which provide incentives, information, and equity. A particularly difficult concept for a Czechoslovak manager to understand is that of the role of information in a market economy.

We also learned that managers are enamored with American management practices while simultaneously being critical of its effects in American society or its relevance to the "local situation." Management course presenters from the West are occasionally puzzled by the audience's ambivalent reaction to some material.

Participants also have no experience or trust of politically neutral social science research on business practices. The assumption made by most people is that the researchers or management experts are informants for powerful people or support a particular political philosophy.

Another common problem is a lack of appreciation about the depth of change that is required for an effective transformation. Many appear to think that the practices or concepts for a market economy can be applied like a band-aid.

A final unique feature is the need for managers to talk

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission. www.manaraa.com

with, work with and do business with their Western counterparts. We have found that internships in the West, interactions with Western executives, case studies, and joint ventures have been some of the most effective management development tools. These experiences had profound effects on younger managers in particular.

Conclusion

We have described here several approaches to management education in Central and Eastern Europe and the ways in which Western institutions can help facilitate this education. Our intent is to demonstrate some educational approaches, the needs of the region's managers and public, and lessons we have learned over several years of work in Hungary and Czechoslovakia.

The problems are difficult to solve. Some educators suggest we wait to offer assistance until more reforms have taken hold. Our response is "wait for what?" A well-known story told in the U.S. is appropriate here to express our view:

An American and a Japanese businessman were in the African Sahara for a picture-taking safari. They were suddenly confronted by a lion. The American looked at the Japanese who was kneeling down quickly putting on tennis sneakers. The puzzled American asked him, "Do you really think you can out-run the lion?" The Japanese man replied, "Of course not, but I can outrun you and that will be enough for me."

References

1. D.S. Fogel. 1990. "What is to be done?", *Tulanian*, Summer 1990, pp. 13-17.
2. Fogel, 1990, ibid.
3. M.J. Esman & H.C. Blaise. 1966. "Institution Building Research: The Guiding Concepts", Graduate School of Public and International Affairs, University of Pittsburgh, Inter- University Research Program in Institution Building.
4. D.S. Fogel. 1991. Management education in Central and Eastern Europe and the Soviet Union. *Journal of Management Development*, Vol. 9, pp. 14-19.
5. American Association of School Administrators. 1983. *The Excellence Report: Using it to Improve Your Schools*. Arlington, VA: American Association of School Administrators, 3-12.
6. National Advisory Board of International Education Programs. 1983. *Critical Needs in International Education: Recommendations for Action*. Washington, D.C.: National Advisory Board on International Education Programs, December.
7. President's Commission on Industrial Competitiveness. 1985. *Global Competition: The New Reality*. Washington, D.C.: U.S Government Printing Office, January.
8. L.W. Porter & L.E. McKibben. 1988. *Management Education and Development: Drift or Thrust into the 21st Century*. New York: McGraw Hill.
9. Commission on Admission to Graduate Management Education. 1990. *Leadership for a Changing World: The Future Role of Graduate Management Education*. Los Angeles, CA: Graduate Management Admission Council.
10. D.B. Allen, E.D. Miller, & R. Nath. 1988. North America. In R. Nath (Ed.) *Comparative Management*. Cambridge, MA: Ballinger, 23-54.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission. www.manaraa.com