Firsthand lessons from a country in transition

March 10, 2011

A timely book by IESE faculty traces the rocky road of Russia and former Soviet bloc countries from command and control to a much freer system, revealing the little-known role that IESE played in facilitating that transition.

Just as the collapse of Ben Ali's regime in Tunisia revealed the cracks in the traditional Arab stability model, the fall of the Berlin Wall in 1989 dealt the symbolic deathblow for the Soviet Union's command economies.

A new book by IESE Professor Emeritus Joan Farrán recalls the defining moments of Russia's transition to democracy and the role that IESE played in it. The book features contributions from a number of IESE faculty members, including Jordi Soley and Paddy Miller.

"Like dominos, Hungary, Poland, East Germany, Czechoslovakia, Romania: all managed to free themselves from regimes that were rejected by the population en masse," writes Víctor Pou, who at the time worked for the European Commission and would later take a sabbatical to devote himself full time to IESE's Russian project.

Moscow calling

IESE's decision to get involved in Russia's transition to democracy stemmed from a meeting between Pou and IESE's then dean, Carlos Cavallé. Both realized that management-training needs in Russia and the Eastern bloc countries would be monumental. And they decided that IESE couldn't, and shouldn't, sit idly by as these changes took place.

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IESE's response was structured around three focal points. The first was seeking out a strategic alliance with other business schools, which led to a partnership between SDA Bocconi in Milan and HEC-ISA in Paris under IESE's leadership.

The second was creating a network of academic institutions in the formerly communist countries, which would send professors and executives to be trained at IESE Barcelona.

Third, they launched a new teacher training program, the International Faculty Development Program (IFDP).

Painful changes

Russia and the former Soviet satellite states' transition toward a free-market system based on capitalist principles was far from smooth sailing.

Throughout the '90s, the economic situation and standard of living in these countries was highly precarious. People were faced with a cruel paradox: They were experiencing the highest degree of trade liberalization in years, yet the situation could not have been further removed from that enjoyed by citizens of Western, capitalist democracies.

Salaries were low and products were scarce, in terms of both quantity and variety. The countries' currencies, meanwhile, were heavily devalued, and inflation was rampant.

As an example, Pou remembers travelling to Kiev as the executive director of the IFDP. When he exchanged a few dollars for local currency, the bills he received weighed nearly half a kilo.

Different worldviews

The challenge of the transition entailed difficulties far beyond the strictly technical, political, economic and legal. One of the biggest obstacles to change was the mentality of people who, in most cases, had always lived in a "militaristic climate," in the words of Lorenzo Dionis, who was also sent to Moscow on this mission.

Dionis remembers, in particular, how desperately people clung to a system in which a small minority ruled with an iron fist, and the vast majority obeyed absolutely. "One person should lead, even if they lead poorly" was a deeply ingrained, widely held belief.

People were also largely unfamiliar with the advantages of cooperation, teamwork and negotiation. Farrán recounts an experience he had when accompanying a group of Russian

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professors on a visit to Barcelona's central fruit and vegetable market.

As they watched suppliers and retailers negotiate deals, the Russians were astonished to see that prices for the products weren't listed anywhere. This was surely the first time they had witnessed prices being created by the laws of supply and demand.

Another example of how hard it is to change mentalities can be seen in the failure of the Soviet Union's last-gasp agrarian reforms. President Gorbachev had offered farmers the chance to buy part of the land they had previously cultivated under the system of cooperatives governed by the Central Committee of the Communist Party.

Despite the favorable conditions of the deal, the project failed. A root problem was that farmers were used to receiving a weekly salary for their work, without assuming any personal economic responsibility. What's more, they could barely grasp the meaning of ownership.

As the book deftly illustrates, transforming hearts and minds can be a far more difficult, drawn-out process than changing political or economic systems - a lesson well worth heeding as another part of the world stands on the verge of momentous transformation.

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