



**CREATING AN AGENDA
FOR EUROPEAN LEADERSHIP**

CONFERENCE PROCEEDINGS



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BLED, 10-11 JUNE, 2003

Conference organizer:

The European Leadership Centre,
The IEDC-Bled School of Management,
Slovenia

in cooperation with

The European School of Management and Technology,
Germany

and

The Centre for Leadership Studies, Exeter University,
United Kingdom

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Introduction



In May 2004, 25 countries and 450 million people will be members of the European Union. Many other European countries have also started the process to become EU members at a later date.

In this context, European leadership is not a utopian, idealistic term. Good European leadership will affect a very large number of people. It will have a major impact on the world's political, economical, social and environmental future.

What does good European leadership mean? How is what makes a good leader now different from ten years ago, and how will it be different in ten years time? What are the key elements of good leadership at the beginning of the 21st century? What conclusions can we draw from current European leadership? What recommendations can we give to current and future leaders in Europe and in the world?

It is imperative that we reflect on these issues, away from politics and stress, away from immediate needs and pressures.

In Europe, schools of management education are the main institutions dealing with professional leadership education. Leadership is about taking the initiative, says Prof. Abell later in this book. It is what makes the world go round, and is very much connected to core values surrounding society and development, responsibility and ethics, and the desire to shape the world in accordance with these values. Leadership, in other words, is about developing and shaping visions.

In September 2002, four European professors of management (Danica Purg, Dean and Director of the IEDC-Bled School of Management, Slovenia; Derek Abell, President of the European School of Management and Technology (ESMT) Berlin, Germany, and professor at IMD Lausanne, Switzerland; and Paul Claudel and Pierre Casse, professors at the I.A.E. Aix-en-Provence, France) established the European Leadership Centre to promote European leadership through conferences, workshops, round table discussions and research.

The ELC founders believe in the importance of good leadership in achieving heightened European competitiveness and also more progressive and socially-responsible European development. They are convinced that our European origins provide a unique opportunity to define a new leadership direction towards more statesmanlike, long-term and responsible leadership.

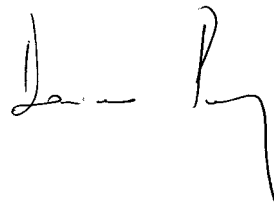
The European Leadership Centre therefore positions itself as a centre of excellence to spearhead directions and actions for leaders wishing to enhance Europe's capability of playing a critical and competitive role in the world economy and world affairs. It is a forum for dialogue between business, policy makers, unions, and the media on issues related to European leadership.

The ELC has three main objectives: to promote knowledge of leadership in Europe via applied research and networks; to organize conferences, seminars and workshops to develop leadership capabilities and share ideas on this subject with the world; and to set up focused round table discussions for distinguished European leaders on specific themes.

In June 2003, more than fifty top leaders from the business world, governments, unions, NGOs and the media as well as experts on leadership issues from seventeen countries attended the first ELC conference, which was jointly organized by IEDC-

Bled School of Management, the Berlin European School of Management and Technology, and the Exeter University Centre for Leadership Studies. Participants discussed the role and future of leadership in Europe, the challenges and opportunities emerging in the field of leadership during the process of European Union Enlargement, and ways to promote and support mutual cooperation in the critical area of leadership assessment and promotion within Europe.

It is my great honour to present to you the proceedings of this conference and to begin the process of sharing its ideas and reflections with you.

A handwritten signature in black ink, appearing to be 'J. P.' followed by a long, vertical flourish.

10–11 June 2003, Bled, Slovenia

Creating an Agenda for European Leadership

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Introductory Speech

WELCOME

President Kučan, Excellencies, my dear colleagues and friends,

Welcome to IEDC-Bled School of Management and the European Leadership Centre!

In our mission statement, we call ourselves an agent of change in Slovenia and in Central and Eastern Europe, a business meeting place and a Slovenian window on the world. We would like managers and leaders from all over the world to come to this creative environment to think about the world of today and tomorrow, about leadership, about their organizations, and about themselves. We hope you will enjoy this event, which we have organized within the framework of the European Leadership Centre. We, with the invaluable support of our visiting professors Derek Abell, Paul Claudel and Pierre Casse, established this Centre last year to assist and promote European leadership.

Since we promote European cooperation, we have organized this event together with the Berlin European School of Management and Technology and the Exeter University Centre for Leadership Studies. When we decided to set up a European Leadership Centre, we did so against a background of the events of September 11 and the failures of corporate governance, particularly in the United States. We did not yet know about the war in Iraq, nor Europe's confusion regarding the issue. I believe that events have shown, however, that we were right in describing the European Leadership Centre as a centre of excellence which would provide direction for leaders and stimulate action on their part to enhance Europe's critical competitive role in the world economy and in world affairs. I hope that this conference will now help us come up with a more precise formulation of the Centre's mission and target. Later on, Professor Derek Abell, Chair of the Conference, will provide more information about what we hope to achieve.

For this first conference on European leadership, we propose an agenda focusing on major unprecedented trends such as globalization, integration, technological revolution, and the demographic, ethical, sociological, and psychological changes that are reshaping our world.

The first topic we are dealing with is a conceptual one: defining Europe – not only geographically, but also politically. What connects the countries of Europe? The philosopher Gianni Vattimo writes in *La Stampa* that we have a lot in common: joy, sadness, pride and shame, traditions to defend and regret. We share an idea of welfare that has been enriched by trade union struggle, but not by a homeostatic individualistic ethos of success. As for the future of Europe, he says: “Either Europe will unify, or it will balkanize like Latin America. It is a good thing that Europe’s unity has not sprung up from inside but has been enforced from outside”. This statement will certainly stimulate discussion on the topic tomorrow.

The second issue is the search for a European mission. We have formulated three dilemmas: growth (materialism versus quality of life), power (control versus freedom), and profit (self-interest versus the interests of the broader community). The French philosopher Jacques Derrida and the German philosopher Jürgen Habermas approached these issues in the *Frankfurter Allgemeine Zeitung* thus: “In European history, in the context of the labor movements and the Christian social tradition, a solidarity-based ethos of the struggle for more social justice has won over the individualistic ethos of competition which takes social inequality for granted”. I can also quote other thinkers who may stimulate us to ponder a European mission, such as Fernando Savater. In *El Pais* he writes: “Europe must not direct itself toward superficial modernization only by removing the obstacles to the introduction and development of capitalism. It has to strive for social order and human rights and obligations, so as to treat human beings as individual creations.” Mr. Savater is very outspoken in this respect, believing that “Europe’s contribution is insufficient, yet necessary for the progress of real civilization. We have to end the fight between tribes and irreconcilable goals”.

The third item in the development of a European strategy brings us to the ambitious yet legitimate aim of becoming the most competitive and dynamic economy in the world. We must realize that this goal concerns many strategic issues: demographics, employment, innovation,

education, governance, etc., as well as those of effective European leadership and its organizational structure. We will have to find an answer to the questions asked by Derrida and Habermas: What is the point of discussing the functions and structure of Europe if there is no agreement on common policies?

The main issue, and the last that I will mention now, is the development of leadership capabilities. We see that economic competitiveness and social responsibility increasingly go hand in hand. Can this generation of leaders guarantee that European leadership will be peaceful, cooperative, open to different cultures, and capable of maintaining a dialogue?

I hope that here at this conference we can seek out at least some of the answers to these essential European questions. As you can see, we have invited people from government, business leaders, the media, NGO representatives, and academics to contribute their thoughts to the discussion. I would very much like to thank you all for being here and sharing your ideas, experience, and concerns with us. I wish you a very pleasant and fruitful stay at the IEDC-Bled School of Management.

Derek Abell



INTRODUCTION

I am very pleased to be the Chairman of this conference. As many of you know, I am a case method teacher. When you teach with the case method, it looks as if you do not know where you are going, but in fact you do. I would not say that the case method is manipulative, but you have to have a framework within which the learning process takes place.

It seems to me that at this conference none of us knows where, precisely, we are going. And that is what makes it particularly exciting. It is not really a conference, but a workshop. I would like to remind you of the event's title, "Creating an Agenda for European Leadership". We do have some sense of interesting issues behind the scenes and it would be a fine achievement if we managed to identify some essential questions, if not answer them.

We already started to grapple with these issues this afternoon. Are we talking about European leadership, or about Europeans who lead? Are we talking about some special brand of leadership? What exactly do we have in mind? I think that as we proceed through these one-and-a-half days, we should keep our eyes on several issues that can help us:

One would be to try to define what the challenges are for leaders in Europe. These leaders of course fall into several different professional groups – business and government, as well as leaders of non-governmental institutions and other organizations. These leaders have to deal with different challenges, but nevertheless share some common frame. I hope that as we go along all of us will keep tabs on what we consider some of the main challenges for leaders in Europe to be today, and what they will be in the future. This is clearly topic number one.

The second topic, in my view, has to do with European diversity. On one side Europe is integrating, but on the other we all feel that one of our greatest strengths, and perhaps liabilities also, is our diversity. As a liability diversity can mean fragmentation, bringing the kind of disarray that Danica has just mentioned with respect to, for example, decisions concerning war. But on the other hand, this diversity can be a great strength for us. How do we take advantage of it?

I lived for fifteen years in the United States. The United States is certainly not as diverse as Europe. That may be an advantage in some respects and a shortcoming in others. But how can we use our diversity positively? What are the negative sides of it? Is there some common glue that binds us all together even though we are different? This would be the second point.

Recently, I heard somebody say that one of the things we need to do is to benchmark leadership in different settings, because there are so many diverse experiences and practices in the European kaleidoscope: in business, in government, in the social community, and with respect to labor relations. Europe, with its countries and regions, is like a giant laboratory. Can we not adopt its best practices and benefit from them, especially in view of the fact that the EU is now expanding eastward? We do not have to wait to go along the same road and make the same mistakes, but should try to jump ahead by means of benchmarking.

I am not sure about the third point. Is there some special brand of European leadership, which, at this crucial juncture of European history, could propel us forward in some way? Or is this just a sort of dream which is not backed up by reality? If there is something special about European leadership, it would have to combine professionalism with some broader social ideas and concepts of responsibility, rather than substitute one for the other. We cannot make the accusation that “you, in the United States, may be very professional, but you disregard social issues” if we ourselves do not combine attention to social issues with professionalism. The question is whether we in Europe can bring the two together.

I believe that we should keep an eye on these three broad topics. What are the challenges that come up under these three headings for business, government, and non-government? Is European diversity a plus or a minus? How can we use it in the most positive sense? Can we build on it for a new value creation for the world? And is there, behind

the scenes, some particular type of leadership in Europe that could provide a model for other parts of the world? We certainly have tradition on our side; an inspiring tradition that goes back a long way in history. Trying to build a frame around all these issues is the main task of this workshop.

The Future of Europe and European Leadership

THE FUTURE OF EUROPE

Ladies and Gentlemen,

I find the decision of the IEDC-Bled School of Management to organize a conference for European leaders a very apposite and important endeavour. The conference is devoted to the issue of management or leadership and responsibility, which is one of the basic challenges of the future, for Europe as well as for mankind in general.

If we wish to talk about European leadership, European leaders, and the challenges that they face, we must first of all answer the question of what kind of Europe we are talking about. What is this Europe that needs a new type of leadership?

In a nutshell, it is the Europe of the future, a Europe characterized by the new spirit of its citizens. We are talking about a Europe that is a part of the world, which, as such, shares its destiny. To a large extent, this Europe is a negation of the Europe of the past, which was plagued by conflicts and wars, rifts, egoism, distrust, and self-centeredness.

We cannot talk about European leadership without dwelling on the basic characteristics of the modern world and the processes that are taking place in it and playing a crucial role in its future. Indeed, European leaders are also world leaders. They are among those who are responsible for the governance of the world. The world is reliant upon their knowledge, conscience, and responsibility.

The modern world is known for the interdependence of those who live in it. It is known for the global nature of capital, economic relations, and markets, as well as the widening gap between rich and poor, which has a negative effect on human development. It is also characterized by its new technologies, especially in the area of information and commu-

nications; its ecological problems, including the limited amount of non-renewable energy sources and minerals, and the safety risks posed by ecological disasters. Another important characteristic is the security threat to international human endeavours represented by terrorism, weapons of mass destruction, organized international crime, uncontrolled biological experimentation and genetic research.

In the modern world, it is impossible to live in isolation for long. It is impossible to shirk one's responsibility for one's actions or the actions of others. What happens at one end of the world affects everybody else. The world lives in interdependence. We could call this "the butterfly-wing" effect as we see the unfolding of a strong pattern of new security threats. Some of these are: the terrifying disease known by the acronym SARS, the recent crash of financial markets in Eastern Asia, the oil-spill from the tanker "Prestige" off the Spanish coast, and the Chernobyl tragedy some 15 years ago.

The world is demonstrating a number of worrisome weaknesses. It has become crudely competitive and insufficiently solidarity-oriented. Its governance leaves a lot to be desired. Its legal regulation is unsatisfactory and ineffective. Global capital is, almost autonomously, setting its own rules. Multinationals have cut across the borders and the jurisdiction of national states. States are not demonstrating enough responsibility for the world in its entirety and for its future, for life on Earth and the preservation of the biosphere.

The Iraq crisis was evidence of the lack of orientation, vision, and ethical practices of the region in its use of tools and power for political, economic, technological, ecological, ethical, and media-related purposes. The same was also visible to some extent in the crises in the Balkans, Afghanistan, Somalia, Rwanda, and the latest one in the Congo. All these crises have brought up the issue of legitimacy and legality of intervention - especially military - by the international community, even when the goal is to prevent activities posing a real threat to life on Earth, human dignity, and human rights. This is also true in Iraq's case, despite the undeniable widespread violation of human rights in that country, and the constant threat that Iraq posed to the rest of the world.

The Iraq crisis demonstrated the world's ethical confusion and indecisiveness. The United Nations was the only universal organization that responded to the main challenges of the 21st century, yet the authority

of that institution has been weakened. Its positions and resolutions are not consistently respected. You are all familiar with the problem surrounding the establishment of the permanent international court, stemming from the rejection of the Kyoto protocol, etc.

The normative role of the United Nations has also been weakened because a number of different international organizations share a parallel orientation. These are the World Trade Organization, the International Monetary Fund, the World Bank, and the G8 Group. The main problem is the lack of coordination between them. The effectiveness of the United Nations is also reduced due to its lack of control over the enforcement of its positions and resolutions. For example, there is no international court of human rights to establish internationally-valid criteria.

The United Nations is also hobbled by the way in which decisions are made. The makeup of the Security Council was meant primarily for a different world, characterized by the essentially different conditions that existed after the Second World War.

The world does not have a well-defined and recognised common ethical foundation. Even Europe does not have common ethical values. We witnessed this during the debates about the Preamble to the so-called European Constitution. The attempts to impose the ethical values of one civilization - European or Euro-American - as valid and binding for others are viewed by other civilizations as a kind of a spiritual hegemony, and therefore produce conflicts. These problems have to do with the interpretation of democracy and the attempt to impose the European and American versions of it on the whole world. This applies to the issue of human rights and other similar issues. We still need to find a common ethical foundation, and this through dialogue of civilizations. This is one of the main challenges and duties facing those who govern the world. The meaning and the goal of such a dialogue is the search for common ethical denominators which are universally acceptable. These must become the foundation for responsibility and solidarity in the global, mutually-dependent world.

Therefore, one of the tasks of the future is the definition of a legal structure which will protect human life and dignity, as well as political, social, environmental and cultural rights as values of the highest order. This task calls for a new hierarchy of values, as the existing international legal order does not satisfy it. Existing international law essentially protects states: the rules of protection give priority to state sovereignty

and non-interference in internal state affairs. The new task also requires an effective institution to legitimize and legalize international intervention if superior values are endangered. We need a system of so-called humanitarian intervention, all the more so because human rights, the foundation of democracy, are being sacrificed for state-security reasons (which are of course also important).

Such an institution is necessary to protect the international community and individual states from potential temptation on the part of single states or ad-hoc coalitions of states to assume individual responsibility for the violation of established values and intervene, bypassing international law.

The modern world is global and interdependent. It is plagued by conflicts and differences. Not just politically, and in terms of civilization and culture, but also economically and socially. Differences due to cultural peculiarities are increasingly important and, because of the substantial gap between rich and poor in the world, represent a major challenge for the world's future and an urgent task for its leaders. The clash of civilizations that Huntington has mentioned is unfortunately a potential reality.

In spite of these weaknesses, the world has become much more aware of both its opportunities and the dangers that threaten it, and has become more cooperation-oriented. This creates the possibility for a new type of leadership, and presents an important prospect and challenge for the world's leaders.

Europe, which has lost its role as the world's leading civilization and culture, is also aware of this. Our continent must now extend its influence and interests in a different way. It must take into account the interests and influences of other regions, accept the necessity of dialogue with them, and share responsibility. But first of all, Europe must ask itself if it is capable of undertaking this new and different role, though it would ensure European influence and respect for European values, spiritual legacy, economic power, and socio-political stability.

Europe must ask itself if it can be an effective, convincing, influential, and responsible partner to other hubs of development of human civilization, with regard to the basic dilemmas and challenges for mankind. It must ask itself what it can do to become capable of this role. But first of all Europe must brush aside its old rifts and deflect new

ones. This applies to the latest rift, generated from outside, partition into an Old and a New Europe. A widening of differences and continual splitting will not lead us to our goal. Europe must become integrated. This presupposes an integrated spiritual and political community, not one based solely on economic interests. Here Europe should preserve its internal idiosyncrasies and plurality. The enlargement of the European Union is an important step toward that goal.

Europe must mature into a full political entity which uses a common language when conversing with others about the key issues of mankind, rather than presenting divergent, often mutually exclusive, positions. Distrust among Europeans must yield to trust, egoism to solidarity. Europe must acquire a specific political identity based on common values rather than on profit.

The Europe of the future is also an ethical project. European and global issues are closely connected, and the future of the world largely depends on Europe. It will be influenced by Europe's internal integration and its ability to assert itself as a source of positive influence and an example of responsibility. The future of Europe is one of the key issues for the future of the whole world.

Of course, Europe's global role will never be unlimited, but can be very important because of Europe's experience, pluralism, and culture. It is unfortunate that the European Convention did not reflect on the European Constitution on the basis of these premises. We can only regret that we did not avail ourselves of the opportunity.

Europe's role in the world is a major challenge for European leaders. The changes necessary for long-term impact on the set objective have created a new leadership and responsibility paradigm related to the interdependence of Europe and the world. There are no longer any independent regions that do not influence each other directly, who co-exist without caring how others are led or how well they are doing. This new interdependence calls for a new definition and understanding of leadership and responsibility. Global responsibility means personal responsibility as well as responsibility for the actions of others. That means that people have responsibilities toward each other and toward mankind in general, toward the biosphere and toward life itself. Responsibility is no longer just horizontal or vertical. It is not only required of state leaders, international organizations/corporations, or non-governmental organizations.

With respect to the new world conditions, responsibility must have a broader definition.

First of all, every person is responsible for the impact and the desirable or undesirable consequences of his actions. Second, every person is responsible for failing to act in cases when action was possible. Third, responsibility is commensurate with one's authority and knowledge. These are privileges that imply obligations, an element that tends to be forgotten.

What I have said departs from the conventional concept of responsibility. Whoever is entrusted with authority is accountable not only to those who have given him a mandate, but to all of mankind and the entire planet. Conceiving of responsibility as being limited only to one's voters or shareholders no longer satisfies the needs of world reality. Moreover, no agent or institution can limit their responsibility to their official scope of action. We can no longer accept the idea that whoever respects rules and obeys the law cannot be held personally accountable for anything. This was the principle of the Nürnberg Tribunal and is still the principle of the Hague Tribunal for atrocities committed within the territory of the former Yugoslavia and in Rwanda.

The new interpretation of responsibility implies that every institution is accountable for actions that are not under its direct authority. An interesting example is the World Trade Organization. Its main task is, of course, to promote the development of free trade. But it must take into account two goals of the international community which, unfortunately, are not transparent enough: sustainable development and decent living conditions for every individual. Therefore, the activities of the World Trade Organization should be subordinated to these global objectives. It should be held accountable for the impact of its activities - that is, the promotion of free trade - on the achievement of these two goals.

Global leadership and global responsibility in the interdependent world also require an awareness of the limits of absolute freedom. These limits must be based on goals and values that the international community recognizes and accepts. There is no community without common values, either at the local or at the global level. Therefore, the responsibility for their establishment is also to be shared. It is a responsibility for all states, for their corporations, and for each and every individual.

This is a brief outline of the responsibility of mankind that has already been discussed in international circles: by the Porto Alegre Forum, the Roman Club, by ethical taskforces, and by a number of other institutions. This outline should be appended to the Declaration of Human Rights.

An understanding of the global and interdependent nature of the world also affects the traditional understanding of principles of leadership and governance. This applies especially to the concept that there is a clear-cut assignment of authority at different managerial levels that can be used as a unique principle for the evaluation of the performance of leaders and their responsibilities. The reality of today's world rejects this kind of absolutism.

No serious problem - such as education, water preservation, use of energy, strengthening of social cohesion, world finances, biomedical research, genetic research, human development, or security and peace - can be solved on the basis of a single principle of governance. Any realistic policy must be based on different principles of governance and their interfaces. Cooperation among leaders at different levels becomes essential. The dilemma of what administrative principle the European Union should choose must be solved by adopting the principle of federalism and decentralization. This is a dilemma of Europe's past, not of its future.

The concept that governance and accountability must reflect the global and interdependent nature of the world requires a change in traditional thinking. First of all, we need to get rid of the idea that there is a sharp distinction between public and private property, and that private property is absolute and untouchable. We must do away with any thinking that polarizes economic growth and welfare, material development and spiritual growth, economic development growth and ecology, mankind and the biosphere, the state and civic society.

Moreover, we must abandon the idea that different responsibilities should be assigned at different levels of governance: community, region, state, and global. To put it simply, each level of governance must provide its own answers to questions that are valid for everybody, and be accountable to everybody. This applies, for example, to environmental protection and other similar issues.

Of course, this puts an end to the illusion that a country, a region, a continent, or a corporation can maintain full autonomy and self-suffi-

ciency. On the contrary, every region and part of the planet must govern itself not only in its own interest, but also in the common interest of the whole Earth. This clashes with the concept that any state, government, region, corporation, or individual can do what they like on the basis of the sanctity and untouchability of their property, autonomy, and sovereignty. This type of thinking would not correspond to the Preamble of the Declaration of the United Nations in Rio, which says, and I quote, that "The Earth, the home of mankind, is an interdependent entity".

What I have said about the necessary mental changes may sound utopian, but I am convinced that this utopia is not so far-fetched if mankind wishes to protect itself from the negative consequences of the world's global nature, and if it wishes to use the opportunities that this global nature offers for the benefit of all.

The world's global nature brings people closer together. But it also creates competition and forces civilizations to measure their power, religions, traditions, and spiritual values. It generates competition in business, and striving for political dominance. Therefore, the global nature of the world can be dangerous if competition prevails and is unaccompanied by solidarity. But it can be an advantage and a great opportunity if we are aware that we need a clear, applicable, trans-national order that we can use as a yardstick for our actions. In this way, we would be able to live a productive life together, side by side, and assume responsibility for the future of mankind and life on this planet in general.

This has to do with the so-called 'golden rule' applying to human cohabitation, which simply states that you must not do to others what you do not want them to do to you. Or, of course, put differently: "Do unto others as you would have them do unto you".

Everyone, including the most powerful people on earth, must observe common rules. This would make for safe and responsible governance of the world and Europe. Europe is a microcosm of the world. The challenges that its leadership and governance have to face are the challenges of world governance.

I am aware that this concept of governance is perhaps more utopian than realistic. But if this is so, it is only so in our minds, in our traditional mode of thinking. Our minds have been shaped in an essentially different world, and reflect a different understanding of its laws.

Modern reality throws up the issues that I have mentioned as items on the agenda for the future and as an urgent task for modern leaders. I am not convinced that the items on this agenda are viewed in the same way by everyone, particularly now that institutional reforms and types of relationships are being discussed in the European Union. But the truth is that the incumbent European leaders are leading Europe and the world for the present as well as for the future. Today we are shaping the profile of the European Union for those who will come after us. This is what needs to be discussed, and we must make good use of the opportunity.

Joachim Bitterlich



THE FUTURE OF EUROPE, COMMENTS AND DISCUSSION

It is difficult to talk after President Kučan. I actually feel more tempted to comment on what he said than to talk about our European agenda.

I worked for more than twenty years in government and politics. But a few months ago I began to work in business; I am now with Veolia, formerly Vivendi, Environment, in Paris, one of the world's largest providers of environmental services in the area of water, waste management, energy, and transportation. I work in an area that cuts across business and politics. It is an area that tries to reconcile profit and welfare, one that always gets politics and business to interact. At the same time, this is clearly an area that needs reform, not only in Western Europe but also in Central and Eastern Europe.

What is on the European agenda? What are the challenges ahead of us? I will look at six major issues.

The first is enlargement. This round of expansion will require much more reflection and attention than any of the European Union previously. Personally, I have doubts as to whether we have adopted the right approach. After the 10 new member states others are waiting in line: not only Bulgaria and Romania, but also Croatia, Serbia, Bosnia, and Turkey.

The second challenge is the European Convention. Valéry Giscard D'Estaing has now put together a project for review at the Thessaloniki Summit, which will lead to another round of European Union reforms. How is this project to be evaluated? Is the glass half-full or half-empty? I am sure that it is not a perfect project, but at least it is a positive start. It does not correspond to my personal idea of efficiency and accountability in Europe, but it is a real step forward.

The third challenge is the development of relationships with our neighbors: Russia, Ukraine and the whole Mediterranean area. We mention Turkey as a potential member state. But if we talk about Turkey, what about Northern Africa, the Maghreb countries for example? Are they any less European than Turkey? Or are they even more European? And what should we say to the Russians? Let us put the question in this way: what are the limits of European integration?

The fourth issue is also crucial. It concerns future relations with the United States. The impact of September 11 was much greater than many Europeans are aware. Today, the relationship between the United States and Europe is more or less a lack of relationship. How can we build a new transatlantic relationship, a new Alliance?

The fifth question concerns Europe's place in the world. What is the role of this old part of the world, which has created the most successful regional model of the last 15 years?

The sixth challenge is the return to an economic model that ensures growth, full employment, prosperity, and welfare. What should Europe's economic compass be in the coming years?

Looking at these six challenges, we realize that they all require leadership, not only political, but also economic. We must ask ourselves if, in recent years, the relationship with citizens has not been lost. Have Europe's people, in our rush towards European Monetary Union and enlargement, not been left behind somehow? Yet, we must admit that Europe's past 50 years have been a success story. We have had 50 years of peace in Western Europe, with stability, growing prosperity, and solidarity.

In order to prepare the debate, I have chosen four wishes from a large group of ideas.

The first concerns discussion of the future of the European social and environmental market-economy model. This model must be redefined. Look at Western Europe, where we have been discussing the limits of the social model: health insurance, pensions, unemployment, and welfare. In Eastern Europe, you are in the process of defining your future path. What is this future model going to be?

My second wish favours longer-term thinking in politics and with regard to the economy. Currently, in politics we look at the period

between two elections. This applies to both national and local elections. Do not misunderstand me: I am not in favour of some new type of administrative planning. But I would like to see politicians and businessmen look much further ahead. At the moment, the nature of business is such that it is based on a three-monthly perspective; a new event has to be produced every three months.

The third wish that I have is to see an enhancement in our knowledge of European civilization. E-commerce is fine, but as far I am concerned there are prerequisites for it. It requires an exchange of culture and traditions within Europe, and we do not know enough about each other. Europe would be much better off politically and economically if we had better knowledge of our neighbours.

My fourth wish is to see greater responsibility, not only within Europe, but also with respect to the world at large. We need to develop many more tailor-made programs for emerging countries. Look at Eastern Europe, look at the Mediterranean and the Middle East. I do not advocate a discussion of blind privatization in all these countries. We have to look for intelligent models for all societies and their real problems. Even if we succeed with our model in Europe and manage to integrate the states of Central and Eastern Europe, we can only sustain that model in the future if we are surrounded by a peaceful and successful environment, a neighbourhood developing in the same way. This is the real European challenge.

*Lev Kreft***THE SEARCH FOR EUROPEAN GLOBAL LEADERSHIP**

Ladies and Gentleman,

The search for leadership becomes an important topic of discussion for such a respectable assembly as this when there is a lack of leadership. An absence of accepted leadership is found when there is no hegemony, if by this term we mean what it originally signified: namely a situation when majority of people agree upon rule and who is to rule. When there is no hegemony there are no certain rules of behaviour guaranteeing security of action on the part of protagonists. They have to act without previously existing and implementable rules, so that their particular action means more than just a move in an already institutionalized game. It is executed as a proposal for a new rule, with an ambition to establish a new game within a more certain framework. To act in such circumstances is to compete for a position of leadership, and acts of many global protagonists today represent this first move in competing for leadership. To achieve leadership under such circumstances means not just to be accepted as a capable leader, but also the acceptance of a new sintagma, a new constitutional framework of security for all future actions and moves of all protagonists. The competition for global leadership is what globalization, as an inflational and somehow inflated concept, in fact denotes. This, I would say, is what has brought the difference between unipolar and multipolar concepts of new global leadership onto the agenda.

1.

The multipolar concept of global leadership is called the European proposal, even if it is not the proposal of Europe as a whole. It comprises more centres of power, but a global rule of law with universal human rights respected by all, and respect for international and in perspective

global institutions. To be able to follow such a vision, Europe needs consolidation of its own ranks, but to keep rank, Europe needs a widely accepted vision. This idea is consistent with some European traditions.

One of them is that Europe is not, and never was, an empire. Edward Gibbon, the famous 18th century-historian, analysed the Roman Empire, its decay, and fall to find out what may be the fate of Europe. He concluded that Rome had to fall because it had such a concentration of welfare at its centre that it lost its capacity to keep the empire together, and could no longer assimilate barbarians. His conclusion was that Europe cannot really fall, because its civilisation can be conquered and occupied only by those who accept it as their own civilization, i.e., Europe cannot fall into the hands of barbarians because barbarians must become civilised to have any chance of overcoming Europe. Otto Hintze, the 20th-century German historian, said that the power of Europe to rule the whole world and transform it according to European standards lies in the institution of the nation-state, and in Europe's intentional, complex multi-polar relationships between nation-states behaving as bodies with sovereign rights. The open question is how such a system might function in a global trans-national world.

The proposal of multipolarity is also consistent with another European tradition, namely, that stability and security can only exist in delicate balance among multiple actors. This idea includes a concept of the centre of power as an empty space, an idea developed by Claude Lefort, who claims in his *Essais sur le politique* that modern representative democracy is the only regime of power which signifies the gap between the symbolic and the real with a notion of inaccessible power, power which nobody can and should possess. It is obvious that such an idea of democracy is inconsistent with the traditional idea of empire: empires cannot be built on an empty central source of power. Global representative rule may be the result of multipolar proposals for a new world order and leadership.

To be considered democratic in eyes of the ruled, leadership has to be representative, and such representativeness gives its rule an aura of democratic hegemony. What kind of representative democracy on the global level can reach these conditions? Here, European and American examples are different. European union is a balance among nation-state sovereignties, with certain rules enabling the executive branches of these sovereignties to organise a common European rule dependent on

repeated cost-benefit calculations on the part of each sovereign member. The United States of America is founded on the direct relationship between the individual and the federal state. To quote from *The Federalist Papers*, written in the course of constitutional debate in 1787 and 1788: "The government of the Union, like that of each State, must be able to address itself immediately to the hopes and fears of individuals, and to attract to its support those passions which have the strongest influence upon the human heart."²) It is premature to speak about global representativeness, while it is certain that the United Nations in its existing shape and form is not a solution. But it is more or less certain that European union, with cosmetic interventions in its functioning only, will remain a union of nation-states as bodies represented by their executives, and individuals as persons will still find European union an oligarchic structure without democratic representativeness and hegemony. European global leadership depends on the outcome of the constitutional debate.

2.

In the second part of my contribution, I would like to focus your attention on three obstacles which may discourage and hinder European global leadership: colonialism as the traditional form of European global leadership, the global unilateral activities of the United States of America, and the cultural uncertainty of Europe.

Post-colonial theories testify, among other things, to the fact that European colonialism, as history and as a concept, is far from forgotten. As a concept, it is still heard in Europe, not only in its most radical forms of racism and chauvinism, but also in other widely-spread ideas, especially those derived from rationalism and 18th-century enlightenment. One of these ideas which is still with us, is the tidy division of the progressive history of the human race and the dividing of existing cultures into the three typical forms of savagery, barbarity and civilization. It seems that this idea is gaining new momentum, perhaps even in the divisions between Old and New Europe, with New Europe seeking support on the other side of the ocean because it still feels that its position in European Union is that of a late-comer to modernity and civilization. The combination of leadership of civilized cultures of the uncivilized, of the progressive messianism of Europe and the West, and of a multipolar world-view provides sustenance to messianic nationalism. A proposal for a multipolar world might still be understood as the typically Euro-

pean idea of domination built on disrespect for other nations, who are looked upon as culturally backward and pre-modern. If leadership is simply about following a leader, and accepting only the Road of Progress or modernization as defined from the perspective of the Others, European and USA proposals are identical, differing merely in having either one or more than one leader. For those who must follow one or the other, this is no difference at all. When Union Soldiers asked an African-American why he didn't join them to fight against the South for his freedom, he responded: "Have You ever seen a bone between two fighting dogs?" "Yes, indeed", they answered. "Well, did the bone join the fight?" If the global world is just the prey of the stronger, neo-colonialism will prevail.

Here, all chances are on the side of the United States of America. American proposals for new stability in the global world differ from European only because the USA possesses enough power, strength and resources to view itself as the only centre of the world, and to exercise the politics of empire. If sovereignty constitutes the decision when to make peace and when to go to war, the USA has proved to the whole world that it possesses global sovereignty. In the States, the vision was quite clear from the outset. President George Bush senior, in his final address on foreign policy, told West Point graduates: "Already we see disturbing signs of what this new world could become if we are passive and aloof. We risk the emergence of a world characterized by violence, characterized by chaos, one in which dictators and tyrants threaten their neighbours, build arsenals brimming with weapons of mass destruction, and ignore the welfare of their own men, women and children. And we can see a horrible increase in international terrorism, with American citizens more at risk than ever before." Even if we doubt the prognostic value of such statements, we have to consider that their validity only really depends on the readiness of political and other leaders to accept them as true, and to operate on the assumption that we are in an era of warfare among chaos and order, between democratic security and barbarian violence, between West and the Rest, and so on. In principle, the difference between Fortress Europe and War Against Terrorism is not in basic statements, but in available means in terms of power and force. The USA uses force around the world because it has it, while Europe, being less strong, can only afford to fortify its own borders while expecting that the USA will adapt the use of its own force elsewhere in accordance with European standards and interests.

This brings us to the third obstacle, European cultural pessimism, which is expressed in the belief that after holding a leading position in modernity, Europe is now decadent. The whole idea of post-modernity, elaborated by Jean-François Lyotard, Fredric Jameson, Wolfgang Iser and many others, originates from the feeling that European civilization is coming to an end. Oswald Spengler's influential work *Der Untergang des Abendlandes* caused Arnold Toynbee to use the term 'post-modernism' as a notion of decline: the great days of Western culture are over, nothing new of any importance can be produced, and what remains is mere superficial expansion. Rudolf Pannwitz spoke of post-modernism in a similar way as early as the 1920s, but with the more optimistic prediction of pan-European community. In our part of Europe, the idea of European crisis and decline produced two different views, both articulated in the framework of the twentieth-century artistic avant-garde. The Zenitism of Ljubomir Micić claimed that Europe needs Balkan barbarogenius to heal its troubled existence, while Slovenian poet Anton Podbevšek saw Europe as a sinking Titanic, with Slovenia as its on-board telegraph operator reporting on the catastrophe. What both visions communicate is that Europe has ceased to be the unique centre of the world's progress, and lacks the power to recover world domination.

Whatever it does, European leadership cannot do it alone, without others, and it cannot achieve any leadership at all without a new, non-colonial global vision. The main difference between unipolar and multipolar politics of hegemony should be that between monopolist politics of repression, submission and domination and the politics of respect and self-respect for each individual and each community. Global capitalism can function in a more stable and secure way only if it sticks to its initial values of fair play of open competition with equal chances and opportunities, with security for all protagonists guaranteed by a global social contract. Stability and security can be maintained by force for a short period only, and the global world needs a better chance. In creating it, European global leadership is important, but only if we are able to step out of our traditional role as a dominating power, can progress from multipolar vs. unipolar politics towards a politics of global social contract and equal chances, and if we can put aside self-deploring ideologies of decadence.

¹ Claude Lefort, *Essais sur le politique* (Seuil, Paris, 1986), p. 268

² Alexander Hamilton, »The Same Subject Continued: The Insufficiency of the Present Confederation to Preserve the Union«, *The Federalist Papers*, <http://lcweb2.loc.gov/const/fed/fedpapers.html> (4.12.1787)

Janez Potočnik

Perspectives on the Challenges and Role of European Government Leadership

LESSONS FROM FIVE YEARS OF NEGOTIATIONS ON SLOVENIA'S ACCESSION TO THE EUROPEAN UNION

The main thing that I would like to share with you is the rich experience gained from the five years of negotiations on Slovenia's accession to the European Union. What are some of the lessons that we have learned from that process, and how do we see its continuation? What are the key messages that the Slovenian government should send out in the future?

One of the main dilemmas that the European Union appears to be struggling with at present is the apparent lack of coordination between a country's Minister of European Affairs, if such a function exists, and its Foreign Minister. But this impression is wrong. The broader question is who coordinates things at the European Union level: foreign ministers or prime ministers? My answer is very simple. If prime ministers coordinate all activities inside a country, it is obvious that they should also coordinate all foreign activities of the country's ministries. Otherwise you inevitably get confusion.

How would a prime minister do that? He could appoint a Minister for European Affairs or create another similar function. This is a relatively minor issue and it does not represent a real dilemma.

The second issue that I would like to dwell on concerns negotiation teams. In Slovenia no member of the negotiation team has been a member of a political party. The negotiation team is a team of experts. We have experienced three consecutive governments, whereas the composition of the negotiation team has not changed and I have led the team from the outset.

How have our ministries viewed the whole process of negotiations? In their view, if there were some kind of department devoted to issue of the European Union that would relieve them of their own responsibility to be involved in the process. But that view is wrong. The European Union is everybody's responsibility. Each and every one must be involved in it. Establishing a special European Union department is a good thing, but there must be coordinating bodies inside the ministries as well. The department cannot do the whole job for everybody.

Ministries normally take care of their own field of work. But the job concerning the European Union is horizontal and cuts across ministries. By definition this creates tensions, and this is why coordinators are needed. To support the Negotiation Team's work, the Government appointed thirty-one working groups comprising representatives of individual ministries and other relevant institutions, who provided the substance for the negotiating position. Each of the working groups was headed by a state secretary. The weakness of this structure was in the fact that state secretaries change when a new government comes in.

For example, in the case of the chapter on Free Movement of Goods, eleven ministries had to be involved in the negotiation process. During it we also had vital contacts with key institutions such as the Bank of Slovenia, the Chamber of Commerce, and the Trade Unions. These contacts were essential because we needed openness and transparency. We also invited representatives of so-called interest groups. One hundred and seventy people expressed their readiness to participate in the process, but they were active in only two fields: agriculture and the environment. Others were simply not organized enough.

We also experienced a particular problem in that we had thirty-one working groups for negotiations and nine sub-committees that took care of the implementation of the signed agreements. You can picture a cake that has been sliced into those various numbers of pieces: sixty at home, thirty-one for the negotiations, nine for the accession agreement. This shows how difficult it was to keep the whole body functioning. The government representative assisted all meetings held inside or outside the country, in order to facilitate nothing other than the free flow of ideas.

What are some of the lessons that we have learned?

First of all, good coordination is of the essence. At the moment some ministries are trying to impose their decisions on the country through

Brussels. Yet, the positions presented in Brussels should not be positions of individual ministries, but positions of the government as whole. Otherwise you will obviously get problems back at home.

Professionalism in the public administration is absolutely necessary. Flexibility in the European Union decision-making process is crucial, and public-private partnerships are essential. These are some of the things that a country needs to consider if it wants to achieve success.

We also learned that if you start the negotiation process from a weak position, you will be at a disadvantage. Slovenia was relatively strong at the beginning and was able to stand its ground. We managed not to create any doubts about the readiness of our country. The first report on Slovenia's progress towards accession to the EU in 1988 was relatively bad, whereas latest reports show that Slovenia is the country best prepared for joining.

Another important point in the negotiation process is that nobody can achieve anything beyond the *acquis communautaire*. During negotiations you are a weak partner by definition, because it is you who wants to join. Moreover, we were carrying out all reforms ourselves. Therefore, it was in our own interest to begin the negotiations well prepared. From the outset we knew that we were creating an image for Slovenia. The time to do it was not after we had entered the European Union, but when starting the accession process. We tried to stay in an easier group of countries because we felt that we belonged there. We are small, flexible, and relatively well-developed in comparison to the other candidate countries.

We always tried to find our own solutions, because the approach of the Commission was completely horizontal. On many occasions its proposals did not suit us. At the end of the negotiation process, three of Slovenia's propositions, and none from any other country, were finally adopted. All of these were actually horizontal solutions affecting all candidates, yet the internal distribution is such that it favours Slovenia.

Finally, we were tough on the outside and soft on the inside. It was extremely important not to raise expectations at home. If we had done that, it would have been us who had to scale them down. There is only one version of truth. If we had attempted to send one message to the domestic public and another to Brussels, we would have been in trouble. The modern world is so transparent that you cannot get away with such tactics, since you will be seen as an unreliable person or institution.

There are two questions that we need to address. The first is whether it was possible to avoid some types of reform by changing the rules of the game during the negotiation process. The answer is no. An even more important question is whether the reform is in our own interest. The answer to this is yes. In our strategic agenda of 1993-1994 we stated that we wanted Slovenia to be a democratic, market-oriented country, based on social values. We never stated that European Union membership is our goal as such. The real goal was to develop the kind of country and society that I have mentioned, whereas the accession to the European Union is merely consistent with our goal. It represents an acknowledgement that we have done our part of the job. This is extremely important, because this outlook renders the costs of accession to the European Union practically nil.

Thus, the main accomplishment of the accession process was the speeding-up of the achievement of our own goals. Then, we received help in overcoming some difficulties with certain changes, we established greater order and stability in society and the economy at large, and we improved the competitiveness of all economic subjects.

I have been working in the government for about twenty years. The changes that we have implemented in the last four years are unprecedented. For the first time the government has very serious control outside Slovenian administration. This is the main change inside the government.

When discussing accession to the European Union, we must bear in mind the key words of stability, security, and prosperity. The European Community was founded in 1951 on those very basic values. At that time, the main concern was really a stability pact between Germany and France. Later, the Community became a kind of elitist economic club. Yet the latest round of enlargement echoes the original idea.

What will we get after we enter the European Union? First of all, borders are disappearing not only on the ground but also in people's minds. It is important to realize that people all over the world have similar problems and they are searching for the same answers.

What is also important is that European Union membership will boost the nation's self-confidence. The establishment of common European rules will lead to greater transparency, predictability and stability. Creating a sustainable and predictable environment is essential.

Last but not least, we have to become an element in an area of enhanced stability, security, and prosperity based on institutions that seek positive internal solutions. It is true that the European Union does not have the wherewithal to maintain peace outside its borders. But it can do it inside. The idea is very simple. Instead of sitting at home and wondering what tricks your next-door neighbours are up to, you just sit together with them and search for solutions to your common problems.

Erhard Busek



THE EUROPEAN AGENDA

Although I enjoyed the previous PowerPoint presentations, I will not make one myself. I will follow the old biblical adage according to which “truth is revealed in listening, not in watching”.

The general agenda for European leadership has been known since 1989, and has been reflected in the speeches of all political leaders since that time. On the one hand, we have impressive visions of what Europe is, could be, or ought to be, but on the other we have imperfect performance on the ground. I think that the first issue for business and governments is to face up to the real problems. I was deeply impressed by the fact that Mrs Johnson, who spoke before me, did not mention the Iraq crisis. I think this is a real issue which demonstrated what has not yet been achieved in Europe.

Of course, the position of a European Foreign Minister was created immediately, but nobody has answered the question of what tools he will have at his disposal. The crises that we have had in South-Eastern Europe were all taken care of by the Americans, not by the Europeans. The Europeans conducted protracted negotiations, whereas the Americans did the job.

The European agenda is still developing and it needs time. This being said, we need to face reality. We have plenty of visions, but not enough action. To quote Winston Churchill, “we have more history than we can consume”.

One of the first things that we need on the European agenda is more knowledge about the New Europe. I am not using the term in the way that Rumsfeld did; what I mean is the New Old Europe. We do not have widespread knowledge of it.

Romanian President Ion Iliescu once stated that Romania was not in South-Eastern Europe because, in his view, that term refers to the Caucasian states, and Romania is South-Central Europe. You can see that we have a semantic confusion here demonstrating that we have an incomplete knowledge of European issues. This is something that needs to be discussed by the business community because we are going to do business together, and also by governments.

The European Union has largely forgotten why it was set up. Minister Potočnik said that it was an exercise leading to stability and peace. Then the focus shifted to issues such as a common market and economic gain. I think that we must now return to the original vision: peace and stability. The main problem in this respect will be management of the transition process from fifteen to twenty-five members. Do not underestimate this. Being in a group of fifteen is not the same as being in the company of twenty-five. The rules are bound to change, but we do not know yet just how. This is the next important point on government agendas.

The next question concerns the responsibilities of the European administration. Education, science, and culture have so far been excluded, which is certainly a mistake. I think that these should be included, too, although that does not mean that national or regional responsibility should be totally suspended. It means that we need an additional centralized dialogue. The scale of mobility is such that we need some joint action on science and research. If we do not achieve these things, we will not be able to understand the cultures of others and the way they do things.

Politics is forever falling behind the business community. I believe that business has the obligation to push politics in the right direction. Politicians are like generals, thinking about the last war, not the next. They always look to the past, but they need an agenda set by the business community, by intellectuals and artists, which will encourage them to look to the future.

As I said, we have too many visions and not enough focus on reality. Sometimes wishful thinking replaces realistic action. I will give you an example. In 1997-98 we talked a lot about Africa. President Chirac said that Europe would "handle" Africa's problems. Can we do so? Of course not. But this statement made headlines: "We are responsible for Africa!" I think that we need a realistic agenda of the things we can do. This is a problem for government leadership.

We say that the European Union is a global payer but not a global player. This is correct. The Europeans pay the most in every crisis, yet decisions are made in America. But it makes no sense to blame the Americans for that: I think it is our own fault. The Americans are doing what they should do. Their decision-making is simplified. If I need a decision related to the Stability Pact and I ask Washington, I get an answer in one day. It may not be the right decision, because my partner comes from Nebraska and has no knowledge of South-Eastern Europe; but I have no knowledge of Nebraska, and therefore we have a balance. Yet, if I ask somebody in Brussels, they tell me that they need ten days; and the answer that I eventually get is that one group is in favor of the proposal, another is against, and yet another has no opinion. So I have to do what I think should be done, later to be blamed for what happens. I am not criticizing the European Union; I am just illustrating what we are really lacking: government leadership.

We must consider what Europe is. We are becoming an adversary of the United States, which is wrong. We have to discuss partnership with them. Sometimes I present the situation in an exaggerated way: our adversary used to be the Soviet Union, but now that it is gone, we are choosing the United States as the new enemy. This would be a horrible mistake. But, unfortunately, there is some movement in this direction.

What is the answer here? I will use a phrase coined by Friedrich Nietzsche, although I am not a fan of his. He said that he was not a good German but he would make a good European. This is what he said as a statement against nationalism and racism, and I think that it could serve us well today.

The entire course of European history - starting from Charlemagne - has been characterized by efforts to find European solutions. By the end of his life, Napoleon was convinced that he had to create a family of European peoples. The Holy Alliance at the Vienna Congress was created to foster a stable situation on the continent. Even Hitler proclaimed that Europe should launch a joint crusade against communism.

Konrad Adenauer read a lot of Nietzsche's works; with respect to the above-quoted statement he said that he wanted to be both a good German and a good European. I think that from now on we have to be, primarily, good Europeans. This does not seem to be quite clear to government leaders, however.

To be a good European means to work on European integration while remembering our vision. The agenda is very long. It is not yet ready for the East Europeans; their integration will be a tremendous challenge. The Thessaloniki summit might provide some decisions on South-Eastern Europe, but it will take quite a long time to implement them. We must not forget that we have two protectorates there - Bosnia-Herzegovina and Kosovo - for which the international community is responsible. This is part of the problem. UNMIK does not want to leave Kosovo, as they are very well paid and want to stay on the job. But this does not teach the region self-responsibility.

I must state this quite clearly: it is the Europeans that have been making the decisions for South-Eastern Europe. The peoples of that region have never had the slightest chance to make their own decisions. And now we are telling them that they have to take regional ownership!

It is even worse farther East because we have no strategy for Ukraine, Belarus, and Moldova. And, of course nobody knows what to do with the Russian Federation. Shake hands and exchange kisses with Putin? OK. But I am told that our Polish friends are not terribly pleased when Schröder and Putin do just that, as the Polish have experienced some Russian kisses that they have not liked. This has to be understood, because history is a teacher. The question is whether we are learning our historical lessons.

Another issue is Turkey and what is to be done with that country. This is one of the issues creating a lot of radicalism. An Austrian Catholic bishop once said: "What? Turks coming to Europe? That would be the third siege of Vienna!" This is a horrible statement, but it is easy to understand because the Turks did come to Vienna in 1683 and now they seem to be coming back. But such fears are completely unfounded.

While the Soviet Union existed, it was easy to explain why Europe needed to unite. Today we have to come up with an explanation of why it is still necessary. Do we always need an adversary in order to integrate? This is a very difficult question.

The next problem is immigration. We have lots of Muslims in our cities. In Vienna, the second-largest religion is definitely Islam. We can speak a lot about a multicultural society, but achieving it is an altogether different story. Definitely not easy, yet feasible.

The brain-drain is another problem that has to do with migration. Bulgaria, for example, has lost twenty percent of its population in the past decade. Who has stayed? The young or the elderly? Not the young, of course. And I believe that the Bulgarians have an even worse pension problem than we do in our aging societies. I think that this brings up the issue of solidarity, which represents a real challenge.

Another issue is colonial heritage. The European Union must pay a lot for the colonial heritage of some of its members. The real conflict is not between East and West; it is between North and South.

“A clash of civilizations” is a nice-sounding catchphrase these days. Actually, I think the issue is different. We try to fend it off by talking about identity, culture, and European values, but have not held a straight discussion of it, and it is not on the agenda of governments. But governments must encourage intellectuals to get involved in such a discussion. The Great European Novel has not been written yet.

If you turn on a TV channel in a European country, you will see a detailed presentation of what is going on at the national level. But I think that what is going on at the European level is more important. Something must be done about that, too.

My next topic is solidarity. The European Union is paying peanuts to aid its newest members. Spain, Portugal, Ireland, and Greece got much more. This is an issue that has to do with business and stability in the region.

Another thing that governments should add to their agendas is making creativity possible. We are an old continent. Is the climate which is created by politicians and administrators favorable to creativity? This issue must be raised as it concerns the business community, too.

What should the orientation of European leadership be? First of all, Europe must make its own decisions. We have to avoid silly battles. One of them involves new lines of division, such as those between “founding countries” and the rest, a “core group” and the others, etc. That is nonsense. If we head in that direction, we will put an end to the European Union.

Some politicians still think that the European Union must do what is on their national political agendas. I do not want to mention names but this is the attitude of quite a few people. I hope that a younger genera-

tion of politicians will oust them, as they have very old ideas about these things.

Stability and peace are still an issue in Europe. I mentioned the protectorates in South-Eastern Europe, but I do not want to blame the so-called Balkans. We still have problems with the Basques, and we have problems in Northern Ireland. We cannot blame others if we have not sorted out several problems in our own house, such as human rights, minorities, etc.

We have different taxation systems, which accounts for price differences. Now merchants in Austria are worried because opening hours in Hungary and the Czech Republic are much longer. They want stores in those countries to close earlier. This is an important issue that we need to discuss.

I believe that we must maintain our fascination for the younger generation, yet at the moment the European project is not sending out fascinating messages. In Western Europe we have enjoyed our longest period of peace, but this has not really been emphasized. I think that this could be a strong message for the younger generation. Therefore, I believe that for some things we have to cross borders, while for others we have to set them - yet certainly not in the geographic sense. We have to understand that Europe is like an unfinished Schubert symphony. It is beautiful, yet it will never be finished. This is a different issue: we are all striving to achieve perfection. Europe will never be perfect, but that is why we have to keep working. It may sound a bit illogical, but this is, in my view, a source of power that will push us forward.

Administrations and governments must listen to other elements of society. Business can sometimes ignore government, but government cannot afford to ignore business. Businesses can take their operations to any part of the globe. They can go to China or India instead of staying in South-East Europe. Therefore it does not make much sense to distinguish between, for example, Macedonia and Albania, as these countries are in one and the same region. The business community must be ahead of governments and politicians with respect to such issues, as the latter are always a bit late.

Melanie Johnson

How Does Europe Stand?

SOUTH - EAST EUROPE: A MAJOR CHALLENGE TO THE LEADERSHIP AND THE FUTURE DIRECTION OF THE EUROPEAN UNION

Ladies and Gentlemen, Excellencies, Distinguished Guests,

I am delighted to be here today in Bled for this first annual conference of the European Leadership Centre, where I share the company of such eminent and distinguished guests and have the opportunity to address such a valuable and important audience.

This event is taking place at a time when effective and responsible leadership is extremely important. Even before the events in Iraq, our financial markets were under pressure from the first synchronised global slowdown in over thirty years. The United States is in recession, the Eurozone is struggling, and growth is stagnant in Japan and much of Asia.

Such difficulties affect us all. They are not simply matters for multinational businesses and corporations; they affect companies of all shapes and sizes in every part of Europe. And they also affect governments. Today I am going to talk about how - as governments - we are enhancing the security and prosperity of all Europe's citizens - including those in the new member states, and how we are working towards making Europe the most dynamic and competitive economy in the world.

Governments have a responsibility to act on the international stage. They must make sure businesses can thrive in a world economy that is not only going through a downturn, but is also changing profoundly - not least with the expansion of the EU from fifteen to twenty-five members.

I do not need to tell you that we reached a historic milestone in European history on 16 April this year. Ten new member states - including

Slovenia - signed the European Union Accession Treaty in Athens. And the Slovenian people voted overwhelmingly in favour of European Union accession in the March referendum. This really offers a great opportunity. But it also presents a major challenge to the leadership and future direction of the European Union.

My government has been a staunch backer of enlargement because we believe it will bring far-reaching political and social benefits, enhancing peace and stability and entrenching democracy and human rights. We also firmly believe that economic cooperation is a cornerstone of the European Union, as our economies are all interdependent.

We will soon all be part of the largest single market in the world – larger than the US and Japan combined – with over 450 million consumers. Businesses across Europe will have easy access to a huge pool of customers and a wider labour and product market. More intense competition will provide our consumers with more choice and better quality goods and services.

Despite the tough conditions of today's global marketplace, the economies of many of the new member states are already growing more rapidly than most other European countries. Even greater growth is likely after accession, through increased trade, competition and investment.

Trade between us is increasing year on year, particularly now that the Europe Agreements have removed many barriers. There are already around 15,000 UK firms trading in the New Member States. This includes a number of British companies operating here in Slovenia. Some of our very best companies such as Allied Domecq, Astra Zeneca, Castrol, GlaxoSmithKline, Price Waterhouse Coopers, Shell and Unilever have a presence here.

Between 2000 and 2001, foreign investment into Slovenia doubled. If your experience of this investment is anything like ours in the UK, you will see even bigger growth once the remaining barriers to trade are removed.

This kind of investment brings new technologies, new ideas, and new practices. Domestic firms are also encouraged to compete and innovate. This increases their productivity and gives them a better chance to compete in wider markets. It also means more choice and better quality for consumers.

There is still a lot of hard work ahead of us if we are all fully to realize all these opportunities. And a lot of European leadership is required to get to our goal!

In March 2000 in Lisbon, European heads of government adopted an ambitious 10-year plan to match US levels of employment and productivity. The idea is to make Europe's economy stronger, leaner, meaner, and more dynamic, more effective and more open to new ideas, new technologies and new solutions. This represented a huge shift in European thinking, away from heavy-handed regulation and intervention. It was a step towards knowledge, skills, enterprise and innovation.

Much has already been achieved. In the past year alone, and despite the economic difficulties, half a million new jobs have been created across the European Union, bringing the total number of new jobs created over the last three years to five million.

A real breakthrough has been made in energy liberalization. Domestic gas and electricity markets across Europe have been opened up, which will bring prices down. Progress has also been made in technology. Thirty million more homes are now online than two years ago. Just about every European school is now wired up to the Internet and broadband uptake is growing fast.

The rest of Europe can look to Slovenia to lead the way in some of these areas. Your work on e-government, the paperless office and online voting is well ahead of the majority of most member states. In fact, an e-transformation conference focussed on developing e-commerce is taking place here in Bled as we speak!

You have also worked hard to facilitate cooperation between industry and academia, particularly in knowledge intensive industries. Member states, old and new alike, can learn much from your approach.

Yet, none of us can afford to rest on our laurels. There is still much more to do. In particular, member states must ensure that the focus of our labour market policies remains on getting people into work, and creating and maintaining truly flexible and mobile labour markets.

We must also deliver on our promise to create a single financial market by 2005. That means cheaper borrowing for firms, higher returns for savers and cheaper insurance. We must make Europe the best place in the world to set up and run a business by supporting and nurturing

rather than hindering small businesses. New firms remain our best source of new jobs.

All this sounds like a lot of hard work. There is no hiding from the fact that it is. But we know that reforming our economy is vital. And we know that the current global downturn only makes it more important that we create the sort of dynamic, competitive European Union that can withstand these difficulties and thrive on the global stage.

Some people think enlargement will only affect the new twenty-five members of the European Union. I do not agree with this view.

Romania and Bulgaria already have clear target dates for their accession. But enlargement is having - and will continue to have - profound effects on all of the countries of South East Europe.

This is the main reason why I am delighted that delegates from Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro can be here today.

Your countries are all potential candidates for European Union membership. Croatia has already formally applied. The Stabilization and Association Process that you are engaged in promotes economic development and reform. These are developments that will bring your countries closer to meeting the standards required of all states wishing to join the European Union.

My government greatly welcomes your commitment to the process. It is a major undertaking not just for governments, but for all the citizens of South East Europe. It has not been and will not be easy but we believe the process will bring real long-term benefits.

The Stabilization and Association Agreements between the EU and Croatia and Macedonia have been signed and are being implemented. The UK Parliament has ratified the Stabilization and Association Agreement with Macedonia. We hope that Croatian cooperation with the International Criminal Tribunal will soon make it appropriate for the UK to ratify the Croatian Stabilization and Association Agreement.

Negotiations of a Stabilization and Association Agreement between the European Union and Albania have begun. A feasibility study is underway for Bosnia and Herzegovina, and the European Council has invited the Commission to undertake a feasibility study on Serbia and Montenegro.

The Thessaloniki Summit between the heads of states and governments of the European Union and the countries of South Eastern Europe on 21 June will be an important step in further enhancing the relationship between the European Union and your countries. It is an important opportunity for your governments and your people to recommit to the reform process and to intensify efforts to take it forward.

Europe stands before a historic crossroads. We know which way we want to go: the way that leads to a stronger Europe, an enlarged Europe, a Europe that is better connected with, and delivers more for, its citizens. But that path is the more difficult to traverse. We must reform our economy, encourage free trade, liberalize markets, and ensure fair and flexible employment. All these are obstacles that we must overcome.

I know we are all working hard together to do so and I look forward to continuing this in the future.

Dobroslav Milovanović



THE EUROPEAN UNION AND SERBIA AND MONTENEGRO

I will try to present the situation in my home country. I will also indicate some interesting differences.

I am not a member of a political party, but I will start with political issues as they are always the ones that come to the forefront. When investors consider a country, the first question that they ask is if there is political stability. As we know, political stability is one of the main features of the European Union and one of the main factors in economic growth. In the transformation of the Federal Republic of Yugoslavia into a state union of Serbia and Montenegro we have a particular stability-related problem: the transition from a federation to a sort of a confederation. It will take us a couple of years to see how this structure will look and function.

It has already been mentioned that the enlargement of the European Union poses a new question: should the union be more centralized with regard to decision-making? Centralization and decentralization cannot be presented as being either positive or negative; each has advantages and disadvantages. I would say that the same applies to globalization. Certain standards should exist, such as free movement of capital and people, as well as standards regulating the environment and technology. But, as President Kučan said, we should foster diversity in culture and religion. We had that experience in former Yugoslavia, with its religious and national diversity. It was an advantage for a period of 70 years. But wrong policies coupled with an economic crisis can exacerbate diversity to such a degree that powers-that-be will misuse it. It is the same story in every country. The United States, too, has a variety of ethnic and religious groups. But they have built something from scratch,

with a common language and common policies. This explains why they have been able to get along and develop much better.

We know that decentralization is extremely important, also for the European Union. If the European Union opts for a more centralized decision-making process, regionalism and local government will become more important in some aspects. I led local-government reform in Montenegro and I prevented one thing from happening, however. As you know, there are all kinds of experts from different countries, each of whom has a different model. There was an idea that Montenegro, which has 700,000 inhabitants, should be based on a European Union model and have not 21 but about 100 municipalities. The problem with this idea was that no cost-benefit analysis had been performed. As you know, many communal services provided by local government are very costly. Slovenia has done many good things in the area of local government development, but I do not think that a local council of ten people and six employees in public administration is the best possible solution.

We are all trying to adopt European Union standards. Therefore you often hear that “we are doing this because this is how it is in the European Union”. But I am critical of such arguments: it is necessary to investigate the background of any solution, and to check whether it provides the best possible model for a particular country in its own particular period of development.

Another issue that we have had to deal with is harmonization of the Serbian and Montenegrin economies. This is important not only for Serbia and Montenegro but for the whole region. How could we become a member of a much wider family if we could not harmonize the economic systems within a single country? We have achieved success, but it has not been an easy task, and we have had to compromise in many cases.

Then there is the issue of reorganization of public administration processes, a common issue for all countries. The crucial problem is in the way of thinking. If you establish a new system, it is easier to change that way of thinking; on the other hand, inherited lifestyle, especially in former Iron Curtain countries, is very strong. The most difficult problem for every administration is to alter ways of thinking and methods of working, to switch from control mechanisms to customer-oriented mechanisms.

The next issue is the fight against organized crime. As you know, we faced a very difficult situation, but it also generated a very powerful reaction. When there is a strong connection between organized crime and government, the situation is extremely difficult, and we were in that predicament. Ten years of sanctions and other factors had created that environment.

We have been very active in terms of legal reform. We have adopted a constitutional charter and more than sixty laws, and have improved the economic and legal framework. We are constantly trying to approach European Union standards. Whenever that is possible, we do it immediately. When not, final and transitional legal provisions are crucial. On the one hand, we have to provide certainty so that our society knows which way we are going. But it is necessary to keep in mind the current situation. For example, if we immediately adopt European Union environmental standards, 90 percent of our companies will go out of business because they will not be competitive. Therefore this is not an appropriate move. The crucial thing is to perform a cost-and-benefit analysis, a regulatory-impact analysis etc., to see if we can adopt changes. We also have to consider ways of reducing administrative burdens and costs for business.

As for economic data, you can see that we have had some good results. But these data are not the only thing that counts. There are a couple of fashionable buzz-words in use these days: sustainable growth, and protection of the environment. In my view, we must discuss new public policy methods and new values to stimulate the future growth of every country or region.

Privatization is a similar story. We are privatizing very fast in Serbia as it is very important to change the ownership structure. But green-field investment is much more important, as is restructuring of the economy. The main problem in my country was the restructuring of the banking sector.

Originally, our ministry was established to coordinate donors and donations. As you know, the whole region is more or less dependent on donations. Our task now is to shift as soon as possible from donations to investment so as to achieve economic growth. Our need for donations will continue for a while, but they cannot be a solution. They make citizens and companies somewhat inactive; therefore this model should be suspended as soon as possible.

I have already mentioned cooperation in the region. It is very important to set up a free-trade area. This is something like a prerequisite for membership in the European Union.

The Slovene Minister of European Affairs Janez Potočnik was in Belgrade a few days ago. He said that it was crucial that Slovenia restructure some sectors of its economy and public administration, and only then become a member of the European Union. In my country, there are some who believe that we should join the Union immediately, but those people have forgotten something: accession is impossible unless a country has reached some standards. Minister Potočnik mentioned, though, something important: the connection between joining the European Union and transition. Accession can help the transition process, as the latter is very painful. Without specific results, it is very difficult for people to continue on the road to reform. In our region, a government lasts no longer than four years because people get disenchanted and vote it out.

How can we reach our goals? It has been mentioned already that we need a more strategically-oriented approach. In the first stage of reforms, short-term approaches were predominant because of the nature of the problems that we had. We had a period of hyperinflation. During that time, short-term commercial notes were the main financial products, as nobody wished to invest in anything else since nobody believed in the economy.

A new method that should be widely used is functional analysis. Many people adopt an institutional, rather than functional approach. Therefore, in Serbia and Montenegro the solution is to define the new functions and structure of public administration. I think that this approach is also important for the design of the new European Union structure.

Zlatko Lagumdžija

THE EUROPEAN UNION AND MULTIPLE IDENTITY

It is hard to talk after people with such rich backgrounds, but Professor Abell gave me a good idea for my opening lines. He said that at events like this one we do not know where exactly we are going. In our part of the world, we know where we are going or at least we know where we want to get. We know the course. But we are not sure how exactly to get there or, in particular, how to speed things up and what mechanisms to use.

President Kučan, too, mentioned something that inspired me. He talked about a world of interdependence. I come from a country that represents a small world with internal interdependence. People there hope that in today's world it will no longer be possible to create islands where people have to live in isolation because they seem to have caught some kind of virus. If the latter were the case, though, European Union enlargement would not be going the way it is today.

We all know that we live in a divided world, and - as President Kučan put it - we need more solidarity in Europe so that it will become the Europe that we want it to be. Twenty years ago when the Berlin wall was beginning to crumble, as far as I can recall, the twenty richest countries in the world were seventeen times richer than the twenty poorest countries in the world. Today, the twenty richest countries are thirty-seven times richer than the twenty poorest. The widening of this gap is also visible in Europe and it affects countries like mine. I think that we need to devote more attention to European solidarity.

I come from a part of the world where people had much greater expectations of Europe in 1990, when Westerners came to Belgrade, Zagreb, Ljubljana, Sarajevo, Ohrid, and Skopje and said that the time of Europe had come. Of course, that was also the time when some people

in Yugoslavia decided that they should be more equal than the rest, which generated the problems which later escalated.

The lesson was that when a given community has one largest or strongest element, according to some criteria, and when that element tries to create an environment in which everybody is equal to a certain extent, it is very important that we remain equal at least with respect to core values and principles. I think that this is something that we need to muse on, with our subsequent experience in mind.

In her opening address, Danica quoted a line from a certain publication. It is something that I have heard on various other occasions, and has to do with the “Europeanization of the Balkans”. This is the opposite of what we have been threatening Europe with: that unless it Europeanizes us, we will Balkanize it. It is a realistic threat that we have to keep in mind.

I come from a part of the world that mirrors the Balkans on a small scale. There was a time when I used to tell some West Europeans that unless Europe Europeanized us, we would Bosnianize the Balkans, and then the Balkans would spread all over Europe. Today we are witnessing jubilation and happiness in the countries that have held successful referendums on their accession to the European Union. But I also hear echoes of the fears caused by the upcoming “end of civilization”; in Europe those fears seem to translate into “the end of Europe”. There are fears that this end will come if the Western Balkans and Turkey are allowed to join the European Union. I personally think that this would not be the end, but the beginning: we will have a multiple identity which will be part of the big European identity. My question, which I wish to share with you, concerns the way we achieve and manage this multiple identity.

I have a friend, Mr. Anzelović, who some time ago was the chief Bosnian Franciscan. He was opposed to the politics of ethnophobic, ethnocentric, and nationalistic movements that we were then witnessing. Once a journalist asked him: “Mr. Anzelović, you are a Croatian Franciscan. Why are you promoting a multiethnic Bosnia? What are you, most of all? A Croat, a Catholic, a Bosnian, a Franciscan, or a European?” He said, “I am, most of all, whatever you attack me for most of all. If you attack me for being a Catholic, I am a Catholic. If you attack me for being a Franciscan, that is what I am. If you attack me for being a Bosnian, I am first of all Bosnian. And, of course, I am a human being all the time,

and that is what I am most of all, and that is what I am each time you attack me”.

Our journey to a substantially larger Europe will not end when we achieve another round of territorial enlargement. That is when the journey starts. Territory used to be the reason for wars. But once the territorial expansion is over, we will start grappling with a new content. That is when a new war starts: a war in peace. That will be the war for the substance of our lives.

Perspectives on the Challenges and Role of European Business Leadership

LEADERSHIP CHALLENGES; FOUR MAJOR DEVELOPMENTS

I have selected four topics that I would like to explore with you in more depth. The first is the shift going on between leadership and management. I can well remember that when I started teaching, we talked about business “administration”. I do not think that anybody views it that way anymore. We do talk about management, but we focus more on leadership. An old colleague of mine, Professor John Kotter from Harvard Business School, said, “many companies are over-managed but under-led”. What he meant by that is that there are control mechanisms and hierarchies which restrict the forward movement of companies. What we need is value creation for customers and the world at large: that is what we are interested in. New value creation requires movement. Companies and their leaders must take advantage of new opportunities. Management, by contrast, has to do with creating structures, systems, budgets, planning, and all those nice things. They are all necessary, yet they are not sufficient.

The concept of leadership is about taking the initiative. My own feeling is that some of the problems of the world having to do with governance are actually quite predictable, because, as we devolve authority to people at lower levels in the organization, we need new glue at the top to hold it all together. We have started grappling with this process but we do not fully understand what it takes at the higher level. It is necessary to have new ways of leading from the top so that initiative can be taken further down.

In summary, then, leadership is not management. I do not want to go too deeply into this in words, but we are in the process of understanding that – although we need both – it is leadership which makes the world go round, not management.

One company that I am quite familiar with is Intel Corporation. They have a system that they call “two in a box”. This is a combination, at every level, of good leadership combined with good management. Intel is a company that creates a lot of change. They are in an industry that requires a lot of novelty. But after introducing a change, they are very good at tidying up and bringing things back under control through smart management. The combination of leadership and management is very powerful there.

My second topic concerns the fact that leadership is being pushed further and further down in organizations. If you want to get something done today, you probably cannot get it all done from the top. The world is a very segmented place, and the top does not know enough details on what is happening everywhere to really act and have visions for the pieces. Most companies that I know are breaking down into ever-smaller units. In the beginning these were divisions, and then we saw units within the divisions. Now we have product management, market management, project management, and all kinds of initiative-taking going on further and further down in organizations. Maybe some of you know that I head a new school in Berlin now. One of our objectives is to deal with managers who have to be leaders from the middle of their organizations.

Many companies are now looking for locomotives like this that can implement change and create new growth. My third topic is that this leads to a kind of leadership amounting to a negation of everything that we learned about management in textbooks. We learned that you have to be completely accountable for the things under your responsibility. Those leaders who work further down the scale certainly do not control all the resources that they need to get the job done. If you are leading an organization from the middle, the odds are that you have to negotiate for a share of the manufacturing plants. You have to negotiate for a share of the research and for a share of the sales force. You have to share all these things with other leaders who are doing their own thing but cannot afford to have all these resources attached to their own initiatives. One distinguishing feature of these leaders is that they are not only great commanders, but also very good negotiators. They are not captains of the whole ship. They operate from lower down in the ship where they have to negotiate for the resources that they need in order to be successful on their territory. Thus, they are persuading leaders, rather than commanding leaders. The result is a new kind of leadership

in a more diverse and segmented world. This is the tendency in most of the companies that I know about.

There are lots of books with titles such as “Management of Change” and the “Leadership of Change”. But most of the companies that I know are worrying about growth. Many of them have been growing because they have acquired companies, but that is artificial growth: if I cannot grow fast enough, I will acquire you, and then the two of us will look as if we have grown because I have added you to me. But that is not real growth. Real growth is organic; it comes from inside the company.

I have worked with some food companies. They are in a business where growth is typically around 2.5 percent. But Nestlé, the biggest of them all, has managed to move from 2.5 percent to something like 3.7. You can imagine that they have almost doubled the growth rate of a company that has 250,000 employees around the world! Doubling the growth rate is a magnificent result. How did they do it? Essentially through innovation. They added new value for their customers. This idea of achieving new growth by creating new value for customers is one of the things in which more or less all companies are now engaged. It requires more leadership further down, more persuasive, rather than command-type, leadership, and an accent on growth.

As to the fourth topic, let me now say a couple of things about other changes that seem to be occurring. I will make this very simple, and say that leadership is about three fundamental tasks. One is deciding which way to go. That is the “what”, or the substance, or the strategy. A second is “how” to get things done. This concerns the way that organizations work. The third is the fundamental purpose, the “why”. If you go back twenty years and look at how consulting companies were making their money, you will see that the focus was on the “what”. We had a lot of straightening out to do because many companies did not have a clear sense of direction. If they had such a direction for the whole company, they certainly did not have it for the business divisions and units within the company. The world’s biggest consulting companies made small (and large) fortunes out of defining new strategic direction. That is where the leverage was. That was the first thing to do; if you work on your strategy you can certainly make big improvements.

But after a certain time, most companies had acquired reasonably viable strategies. They are not all perfect; there are still many companies that are not doing exactly the things that they should be doing. But the

focus has now quite clearly shifted toward organization: not which way to go, but how exactly to get there. We went through a period in the 1980s when most consulting companies focused on issues like “How do I get my company more market-connected?”, “How do I make it more customer-oriented?”, “How do I get it more up on its toes, like a tennis player, and less flat-footed and slow?”, and “How do I make my company more speedy? I know where we want to go but I wonder how to get there faster”. Organizational speed has acquired a lot of priority. Another question is “How do I improve business processes?” A lot of business consulting projects are focused on the theme of business process reengineering. This is not strategy. This is about making things work better.

Yet, even the “how” side is not the fundamental issue today. Terms such as “shareholder value” have taken precedence over some simpler notions such as “profitability”. We know how to make a company very profitable this year and we know how to give it a high return on investment. But you can have a profitable company this year and a failure next year, because you have robbed Peter to pay Paul. While shareholder value has its critics, one of the good things about it is that it focuses you on the long term. One way that companies can operate for the long term is to ensure that they have the highest possible future cashflow, which is what shareholder value is really all about. Shareholder value is not a perfect measurement as it focuses on just one subject: the shareholders. Nevertheless it has brought order to many companies, because many companies that were ignoring it were in the business of destroying value, not creating it.

Maybe the world is not perfect yet, and the business world is not making all the contributions that it could, but something is being done. There are clear shifts taking place, such as a shift toward leadership and not just management; there is a shift toward pushing responsibility further down the scale; there is a shift toward more persuasion, less command, and less controlling in initiatives. And there are shifts toward fundamental questions of purpose: Why are we doing what we are doing? Let us make sure we have got our purpose right, because if we get it right, we can solve other problems more easily.

Helmut Sihler



LEADERSHIP CHALLENGES; THE QUESTION OF CHARISMATIC LEADERSHIP

Let me base my remarks on two personal experiences.

Since 1993, I have been Chairman of the Supervisory Board of Porsche in Stuttgart.

From 1996 to 2000 I was Chairman of the Supervisory Board of Deutsche Telekom in Bonn; for a period of five months last year I served as interim CEO of this company.

Porsche went from a serious loss situation in 1993 to being the most profitable car company in the world. Deutsche Telekom, after semi-privatization, had a market cap which put it among the top three European companies. Since the high point in 2000 the market cap has gone down to one fifth of its original value.

Two names stand for these two developments: Wendelin Wiedeking for Porsche, and Ron Sommer for Deutsche Telekom. I was able to observe both at close range and I will share some of my conclusions with you.

They were/are both charismatic leaders. What is charismatic leadership?

The term was coined by the German sociologist Max Weber in his essay "The pure types of legitimate rulership". He differentiated between legal, traditional, and charismatic leadership. The charismatic leader is able to command the trust of his followers; his charisma, a special gift, makes him the true and uncontested leader. A leader needs, as Weber put it, followers who believe in him. When he is no longer favoured by fate – or the Gods – his charisma fades and his followers leave him.

The concept, after having been applied to military, religious, and state leaders, is now applied too loosely and has obviously lost some of its impact. In the US corporate world of the 1990s, it was almost a prerequisite for a CEO to be charismatic. With the downfall of some of the heroes the term has fallen out of favour, but it still designates a quality beyond managerial excellence. There can be no leadership without a vision going beyond the obvious.

Wiedeking believed, at the time when Porsche had sold only 13,000 cars and lost DM300m and (perhaps more importantly) had serious image problems, that profitability could be regained. His belief in the value of the brand was his vision.

But nothing would have come of it if he had not found the tools to implement this vision. They were: stringent cost control, incessant drives for quality; reorganization of the international sales and distribution system; excellent people; and good communications within and outside the company. The way to success was rocky, but eventually successful. Porsche was, so to speak, re-invented. Wiedeking showed stamina throughout this difficult period of reconstruction.

Here we have three dimensions of leadership: vision, excellence and consistency in implementation, and stamina.

It is true that Ron Sommer had the same qualities. He had a vision for Deutsche Telekom as an international communications giant based on wireline, wireless, internet, and systems applications. He believed he had the basis, although the danger of overestimating DT's capabilities was always imminent. And he had stamina when things were getting rough. Why, then, did he fail? Superficially speaking it was the bursting of the internet/communications bubble which led to the downfall not only of Ron Sommer but of some other CEOs in the communications field. But why was he not able to readjust to the changed business climate?

Success has its own dangers. The man at the top cannot admit to himself that he might have chosen the wrong direction. And even if he admits it to himself, he cannot admit it to others. Instinctively he wants to protect his charisma. And then of course there is his entourage, who will protect their leader and thus mislead him in difficult times. There appear subtle changes in the perception of reality: where there was a vision, there is now hope. Where there were defined steps of implemen-

tation, there is now the rule of ad hoc and short term. And where there was stamina, there is now thickheadedness.

The consequence seems to be, of course, that leadership must be controlled. The catchword everywhere in the capitalist world today is "Corporate Governance". The high point is the Sarbanes-Oxley Act in the US; but CG codes have sprung up everywhere and now the EU Commission has announced that it will promulgate rules for CG. All of this will certainly do some good. But there is a danger: as we weave a net around the CEO, we reduce his ability to lead. Sometimes, when watching the proceedings and proclamations on CG of all these commissions and committees, I get the feeling that the CEO is a dangerous, wild animal that must be tamed. But will we break his ability to lead as we make him conform to tight rules? And is the answer to all kinds of misbehaviour really to establish complete openness in information and risk description? When I read an SEC Form 20F, where all the risk factors are listed, I feel not informed but misinformed.

Obviously, what we need to achieve is a new kind of balance. We need leaders, and we want to have control over them. In the agenda of our discussions today and tomorrow this balance will play a role, both for politics and for business. My experiences at Porsche and Deutsche Telekom make me hesitate to make clear-cut statements one way or the other. But I lean toward a view that we must continue to have and if necessary re-create a climate where true leadership will be accepted for its own value. It need not be charismatic; but it must be more than the art of compromise and doing the obvious.

Peter Rohleder



THE ROLE OF BUSINESS-LEADERSHIP: GOOD AND BAD LEADERS

Before I begin my real presentation, allow me to share with you my background so that you have a basis on which to judge my observations and perspectives on leadership. I have 25 years of experience in both business and as an officer in the German Air Force, and as an academic and a management consultant. I have also spent 15 years in board-related functions and family enterprises in the United States and Europe. I also have 20 years of experience as an entrepreneur and innovator. In addition, as a German who has spent 30 years in Switzerland, I have had the chance to see what Europe looks like from that perspective.

I would like to start with some general remarks, sharing with you what I have seen while a consultant to companies. I have observed that leadership arises when a company is on the brink. In some cases, this can be positive: leaders take the company uphill. But the question is, what comes next? In many cases the next thing is a leadership crisis.

When there is a crisis, a leader is needed around whom people can gather, who leads the company away from the Doomsday scenario. True leaders rise to the challenge. One of the best examples I can think of is Jürgen Weber, CEO of Lufthansa. You are probably aware of all the problems that the airline industry has faced. By building Star Alliance he demonstrated real frontline leadership. He was very successful in introducing what I call “the accordion principle” of a living and breathing organization. He felt that one company obligation was to retain employees even in times of crisis, and believed that there should be ways of doing that, such as temporary salary reduction, acceptable if the company was to survive. Now that external problems such as September 11 or the SARS epidemic are behind us, Lufthansa is still a functioning company.

My third point is that great leaders do not lead alone. When Mr. Milberg stepped down from his position as CEO of BMW, the succession created no problem. Another good example was General Motors. It hired Bob Lutz at the age of 72 as Vice Chairman of Product Development. That really took guts, because he was not a car person. If you want to lead a company in such a competitive environment and make it even more successful, you have to know what your strengths and shortcomings are. Taking a maverick and making him a leader in the car business is what I mean when I say that great leaders do not lead alone.

Great leaders instill a willingness to improve the performance of their companies. You have to give people leeway to act and give them the possibility to create a really great company. But you also need checks and balances, such as a budget and an accepted strategic plan. The line manager should have freedom to act within these limits. Unfortunately, however, this principle is often disregarded and we do not see this type of freedom in companies.

Once you have secured the faith and energy of the masses behind you, you can change anything. But if you do not have their faith, you will fail. If you try to lead numbers, you will most probably not be successful.

Another good example of this kind of leader is Peter Brabeck of Nestlé. He has a very simple formula: “no matter when, no matter where, no matter how”. He said, “Our goal is real internal growth of 4 percent. This is what I want you to achieve. I do not care how you do it, just do it.”

If we try to summarize the key elements of successful leadership, one observation is that you must “overcome the cognitive hurdle”. The big problem is that you often see situations where people try to lead numbers. But numbers are abstract, and people do not stand behind you. They are not responsible for results; it is always somebody else. We have a nice saying in German for this situation: “Somebody else will do it”. You do not feel that you have a responsibility to do something. The way to deal with this is to make people face the problem. Electrolux is currently sending designers out into the field to work in the business that they design appliances for. If you work in the catering business, for example, you get to know all its problems. For example, you learn what it is like to clean machines, and next time you design a better product. Leadership starts when you face a problem.

Those who are familiar with conditions in Germany know that the Deutsche Bahn has a huge problem with its pricing system. Nice as its design was, it was not customer-oriented, and denying that amounted to denying that customers had a problem. That is obviously one of the worst situations that you can be in.

The second thing involves overcoming political hurdles. You need to be a bit more brutal. You have to identify your internal opponents and isolate your external ones. Next, you must overcome the commitment hurdle. How do you get people behind you? You need to identify the key influences in your organization. You have to find out who the race-horses are, i. e. whom you can lead in the new direction and into the new situation. Take a zero-base approach and question everything, beginning with your strategic point of view. Create the right incentives and motivation, but at the same time balance trust and skepticism. Do not just let things run wild.

Then you have to overcome the resource hurdles. More often than not you will hear that something is impossible because the budget does not allow it. Therefore you have to concentrate on what will bring the greatest payoffs, and pare down everything else. You have to make tough decisions, for example to suspend projects, even developmental ones that have been going on for some time, the guiding principle being “tear down and build”.

This leads me to the characteristics of good leadership from my observation and experience. I would like to dwell on a few points which, in my view, are important in leading countries today.

I am a strong believer in leadership from the front. Do not expect of others what you do not expect of yourself. I mentioned my military experience because that was one of the first things that we learned at the age of nineteen. If you have to go into battle, you do not sit comfortably at headquarters: you go in with your troops.

The second thing is a joint effort toward a shared goal. The third is accountability and trust. This is especially important after experiences such as those of Enron, World.Com, etc. If you do not have accountability and trust, you do not have the necessary legitimacy to be a leader.

You also need very strong performance orientation. I do not just mean results; results are fine, but you also have to survive and sustain your position. You need adaptability and flexibility. You need vision and strategic thinking.

I disagree slightly with what we heard yesterday. I do not think that just being a charismatic leader is good enough. You also need leadership skills and methods. What leadership is about is not only built around personality but also has to do with competence.

Let me conclude with some examples of good and bad leaders. In retrospect, I consider Jack Welch a bad leader. People will judge him by his personal greed. If you fail as a good leader and a good citizen, from my point of view you cannot be considered a great leader. There were others who, like him, may have done good things for their businesses, but seem to have gotten carried away by the excessive power they wielded.

One of the good leaders that I mentioned was Jürgen Weber of Lufthansa. Another was Jeff Greenberg, who was my boss at Marsh & McLennan. We lost 1200 people in New York on September 11. We had 7000 people in those buildings, and were lucky at the end of the day that we lost only 1200. The way he dealt with that disaster was an outstanding example of personal leadership.

Another good one is Peter Brabeck of Nestlé. He is capable of speaking about his mistakes, and he has made quite a few in his career. He used to believe that acquiring a great company would propel Nestlé forward, but he came to realize that size is not necessary a guarantee for success, and has admitted to his mistake. A great leader is capable of doing this and learning from it.

On the philanthropic side, I can mention Theresa Heinz, who may become the next US First Lady if the Democrats win the presidential election. She is one of the great American philanthropic leaders. I had the privilege of working with her, and saw that, even 10 year ago, she handled philanthropic work as a business, considering issues such as “what do I get from my investment?”.

Finally, I would like to conclude with a challenging question that may generate a debate: “Do we need charismatic leaders or leaders who perform?”.

Vladimir Preveden



CHARACTERISTICS OF LEADERSHIP IN CENTRAL AND EASTERN EUROPE

I would like to present to you the results of a recent leadership study carried out in Central and Eastern Europe, and make some comparisons with the situation in Western Europe.

The study was conducted on the basis of 70 interviews with top managers in Poland, the Czech Republic, Slovakia, Hungary, and Romania, as well as partners in the European Union.

We have identified several points on which leadership in Central and Eastern Europe can be compared to that of Western Europe.

First of all, we have noticed that managers in Central and Eastern Europe tend to overestimate their own capabilities, more so than managers in the West. We asked them to describe their own leadership style by choosing from adjectives such as “professional”, “dynamic”, and “plan-oriented”, and grade their characteristics on a scale from 1 to 10. The grades that they give themselves on these traits exceed those in the self-assessments of Western managers.

We have also observed certain positive and negative characteristics of managers in Central and Eastern Europe. On the positive side there is a certain level of flexibility and pragmatism. On the negative, a general lack of knowledge about the market and the overall environment in which business is operating.

Another issue is that while Central and Eastern European managers tend to overestimate their capabilities, they also underestimate the difficulties that will arise from forthcoming accession to the European Union.

Another observation is that although much reorganization and restructuring has taken place in Central and Eastern Europe, there is a lot more to be done.

We asked Central and Eastern European managers to list their positive traits; then we asked West European manager to tell us how they see their Eastern peers. We observed that the two descriptions more or less match. Central and Eastern European managers are more entrepreneurial, they need more freedom to act, they are quite fast decision-makers, and - according to the Western respondents - are more pragmatic.

On the negative side however we see that political networking is still quite important in Central and Eastern Europe, hierarchy is still omnipresent, and decision-making is not always based on economic assumptions.

Western managers told us that their Eastern peers are less formal in their decision-making and less organized. This can be both an advantage and a disadvantage, but is generally the latter. Eastern managers are less focused on strategic issues, less internationally-oriented, and more corrupt, to degrees certainly varying from country to country.

We also asked managers to judge their perceived handling of their stakeholders. Central and Eastern European respondents tend to believe that their handling is quite sufficient.

Of course, when we say that Central and Eastern Europeans overestimate themselves in certain areas, we might also claim the opposite: that Westerners underestimate themselves. We do not believe that this is the case, however, due to the very well-developed consumer and financial markets in the European Union and the high international orientation of companies and managers.

Finally, Central and Eastern European managers identified a number of things to be done in preparation for accession to the European Union: business process improvement, innovation, cost-reduction, improvement of sales techniques. This struck us as somewhat unfocused: too many issues were mentioned at the same time, and no clear prioritization was apparent.

In terms of areas of improvement identified by European Union managers, management development is the number one priority. This issue is not perceived the same way in Central and Eastern Europe.

In the European Union, we employ performance measurement criteria such as share-price growth, sales growth and profitability margins. These more or less define our shareholder value. This is not so far the case in Central and Eastern Europe, where cost reduction issues are perceived rather as shareholder value indicators; thus we see that there are still performance measurement differences.

A final point emerging from the study is that Central and Eastern Europe still has difficulty recruiting good managers. We have asked people how often they use external recruiting. In the European Union, 52 percent say “often”, whereas in Central and Eastern Europe just 20 percent give that answer. We also asked how difficult it is to find good managers, and found that the problem is much greater in Central and Eastern Europe. It is, in addition, much more difficult to find managers outside the company than inside it. This shows that the labor markets are not yet working efficiently, that the head-hunting industry is not sufficiently developed, and that there is a general lack of managers with modern management experience or profound experience in a specific area with an international scope.



SUMMARY OF THE GROUP DISCUSSIONS

Our first conclusion is that we, Europeans, are too obedient and that breaking rules is always a positive thing. We came up with the idea that we should not wait for some kind of common, unified vision; we must force the emergence of such a vision.

We need a strong focus on ethics. We have to make sure that the business community behaves ethically, as that will have a positive effect.

We must not be imitators, but do what we can do best and cooperate with others.

We have to manage and seek opportunities across different cultures.

We need an honest assessment of a leader's personal abilities.

Business leadership should focus on productivity by means of innovation and new ideas.

It is important to build trust and self-confidence as Europe is too politicized and is losing its self-confidence with respect to competitors from other parts of the world. Eastern Europe should build trust among businesses, customers, and government, whereas Western Europe should regain the trust that it used to enjoy.

Europe needs a focus on top business education, through in-company training or business schools.

We need to activate a willingness to change, starting with leaders.

We have to foster entrepreneurship.

The managerial talent of the new European Union entrants should be put to good use rather than ignored.

Control of natural resources is going to be an important issue and a top priority.

Leadership should be more achievement-oriented, “do or die” being its main principle.

We have to build on our European traditions, and show solidarity with respect to other parts of the world.

Major Stakeholders and European Leadership

A WORLDLY MINDSET: IS IT POSSIBLE TO SATISFY THE NEEDS OF STAKEHOLDERS AND TO RUN A SUCCESSFUL BUSINESS?

Leaders typically have a variety of disparate, often competing interests to take into account. Stakeholder Theory aims to clarify and inform relationships with all the groups to whom organizational leaders are accountable – both formally and informally. While American and, to a lesser extent British businesses have emphasized the overriding interests of shareholders, Europeans claim to take a more ‘social’ line on the purpose of business. This paper examines these differences and offers some advice for leaders of European organizations, both commercial and governmental.

The princess Europa was once seduced by Zeus in the form of a bull and carried away over the seas to Greece. She fell in love with the Greek way of doing things, and particularly with the notion that the highest human virtue was that of deliberation: trying to make judgments between competing values.

Britannia, on the other hand, tried to rule the waves, to control even the winds and currents of the economy in her imperial interests. (However it seems she may have finally washed up on the coast of Maine, from where she is still trying to expound her singularly un-Greek doctrine).

What is the difference? Aristotle listed four intellectual virtues or spheres in which excellence would lead to happiness and fulfillment: knowledge (episteme), skill (techne), deliberative reasoning (phronesis) and contemplation (theoria). The latter, he says, is almost divine; he gives most attention to phronesis, the process of considered debate and reasoning by which a community decides what it believes to be most precious, noble and worthy of admiration. Phronesis is the virtue of sta-

tesmanship, the highest of purely human virtues in a pluralistic society of competing interests in which circumstances are constantly changing and no single set of rules can apply reliably for long.

On the other hand, is it really possible for any group of leaders, however exalted, to determine the 'right' goals for society? Even if it were possible, does a political cadre pose too high a danger of totalitarianism, or of sectoral interests posing as the general good? By this account, let each person or group of people pursue their own interests as best they can, and the overall outcome will be as good as possible, as if guided by an 'invisible hand'.

In this paper I will see if we can build a sort of a transatlantic cultural bridge between these two concepts. In so doing I refer to and elaborate on an article by the Harvard liberal Michael Jensen (2001).

From the point of view of a business person, to say that we have to meet the demands of all our stakeholders gives us no basis on which to judge which competing claims should have priority. Of course, we hope that leaders will be well-educated citizens capable of making these judgments as members of a trusted cadre of deliberators in the Aristotelian fashion. But stakeholder theory provides no definite guidance. We see a similar problem in the theory of the Balanced Scorecard (Kaplan and Norton, 1992), which claims to show how to measure workers on a range of scales going beyond simple financial metrics. This is a very popular method, yet I doubt that many would claim to know what good balance of effort really is. This is a matter for judgment, generally left to lone managers, often without the benefit of debate, vital for *phronesis*. Setting a properly balanced set of measures is extremely difficult for a complex multicultural organization. As Jensen puts it:

"Stakeholder theory plays into the hands of special interests that wish to use the resources of corporations for their own ends.... [it] gives them the appearance of legitimate political access to the sources of decision-making power in organizations, and it deprives those organizations of a principled basis for rejecting those claims. The result is to undermine the foundations of value-seeking behaviour that have enabled markets and capitalism to generate wealth and high standards of living worldwide" (Jensen, *op. cit.*, p. 21).

The argument goes like this. Stakeholder Theory and the Balanced Scorecard emphasize the need to take into account different interests,

primarily because they impact on an organization's performance. They identify these in two ways. Stakeholder Theory identifies fellow travelers who must be kept happy, whereas the Balanced Scorecard points to a number of factors within the work of an organization that need attention – such as employee and customer satisfaction, product or service quality, and so forth. But none of these are the main criteria on which the organization will be judged. They may make for success, but are not measures of that success. Happy regulatory authorities, happy neighbours, and happy employees are crucial, but not enough. We cannot get away from the idea that we need a single score for what counts as success. The leader of any organization - economic, public, or governmental - needs to be clear on what the score is.

Let us take an example from football. We know that scoring goals is what matters in the end. But to get the ball into the net requires a complex set of skills and capabilities. As a leader or a manager you have to resource, mobilize, organize and develop all those skills; but the score that matters is the number of goals. In business the score is financial value added to the company; other interests (of stakeholders) are important aspects of the context, and a variety of competences and capabilities are required to add value over a sustained period. But nevertheless what really counts in a capitalist economy is shareholder value.

(Note, however, that shareholder value is a misnomer. The value of a firm is not just the value of its shares, but also the value of debt and other instruments. Nonetheless the total economic value of a firm is clearly the relevant score). If you do not get as high a score as your competitors, you will be put out of business.

Obviously, leaders must be clear about the nature of that single metric, and they have to distinguish between the score they are aiming at and the relevant factors that drive performance. To say you are going for maximum economic value does not inspire many people in the organization, nor does it help them know what they should do or what they should improve. So clarity at all levels of analysis is vital to effective management.

Even more important, leaders must remind people of the purpose of what they are doing. In a football league, it is not always the highest goal-scoring team that wins, but the one that wins the most matches. It is much the same in business. Maximizing shareholder value cannot be the only thing that drives a company, and is not its purpose – simply the

score-card. The example of the negotiations to bring Slovenia into the European Union is pertinent: the purpose there is to arrive at peace, stability, prosperity, and certain shared values. In order to achieve that, Slovenia needed to get into the European Union. That is a great goal to go for. And in order to reach it, you need successful negotiations. Therefore, there is a clear distinction between the purpose, the score, and the drivers.

Yet the European reality – maybe the global reality too – imposes limitations on the usefulness of such clarity. Let me, following Jensen, borrow the terms “microcosmos” and “macrocosmos” from Habermas (1987) and Hayek (1988). Hayek uses them to describe two different kinds of experiences that we have as members of a community. The microcosmos is the intimate, sensuous level; the family, the tribe, the people we know and to whom we feel connected. The macrocosmos, to which we also belong in a less intimate but nonetheless comprehensive manner, is our civilization, our way of doing things. It consists of knowledge and experience that have been built up, and the huge number of people who contribute to our stability, peace, security, and prosperity whom we do not know. It includes rules, regulations, and governmental and legal structures. It is what Marx referred to as the state superstructure and ideological infrastructure of civilized society.

One big problem is how to mediate the experience of these two worlds. As members of business organizations, or any other kind of organization, people desire a feeling of belonging and membership. That is a microcosmic feeling. But an organization only makes sense if it has value socially, at the macrocosmic level. The problem of leadership here is to provide the link between those two worlds, especially when there are questions of what it is that we belong to – such as Europe.

This is the substantive basis of the relationship between local and global; and it is why I do not like the term “a global mindset”, which refers only to the macrocosmic mindset. Henry Mintzberg and I use the term “worldly mindset” in a forthcoming paper (HBR, November 2003). It has a connotation of worldliness to it, combining microcosmic ‘belonging’ with participation in the fruits and responsibilities of humanity worldwide.

What is the point of ‘vision’ in leadership? I think it is to provide a sense of membership in something larger than we can actually touch and feel. It is to create a notion of our own family being part of something more; of our organization, our company, our work unit being part

of something larger, of our enterprise as a whole as being part of the macrocosmos. This is what vision is for.

Leadership must therefore articulate purpose, the basis for keeping score, and the performance drivers. It must also provide - at the European level certainly - vision in the way that I have described it. All this can be summed up as a worldly mindset.

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Derek Abell

LEADERSHIP BEYOND THE BOTTOMLINE

My presentation will reflect some of the things that Jonathan said. Maybe the words will be different, but the sense is the same. I call this “leadership beyond the bottom line” deliberately, because it seems to me that in terms of “micro-macro” terminology the bottom line is a kind of micro idea.

I would like to point out that it is not just firms that are searching for this broader notion, but governments too, because we are not happy with economic growth as a sole indicator. For example, people say “What about the cleavage between the rich and the poor?” If you simply measure GDP or GNP, it does not show up.

I have defined three levels of organizational purpose. One is the bottom line. This involves simple economic measures such as profitability for the firm or GNP for the macro economy. But what is behind it? I think that this is where the balanced score card enters the picture. It concerns finding the main drivers for business success rather than simply looking at the end result. But there is another world out there, farther beyond. For the firm this involves issue surrounding individuals and society, which in a sense flank the organization. They are the context within which the organization works.

There is one intriguing measurement: of this third broader goal, the Genuine Progress Index. A California-based think-tank has tried to measure the positive and negative impact of things beyond GDP. For example pollution or depletion of scarce resources are subtracted from that index, whereas household work and the gray economy are added. The interesting thing is that the Genuine Progress Index departs from GDP. When growth and “progress” depart from one another, where are the antidotes?

Some people believe that technology will solve our problems. For example, it might solve the problem of global warming. Others say that the market will work for us in the long run. This is a kind of Adam Smith approach: markets are everything. Still others will say that markets work some of the time but sometimes not very well, and therefore that we need rules and regulations. And yet others - I am one of these - believe that leadership makes a big difference. In other words, all of this can develop negatively or positively, depending on the quality of leadership. Leaders tip the balance between good and bad outcomes for the market, for regulation, for technology, etc.

My model is very close to Jonathan's. I do not like the word "stakeholders" as much as "contributors to value-creation". I see this as a kind of textile with strings on the corners that you can pull on. The strings are held by leadership, motivated employees, society that gives its blessing or not, and willing capital providers. The way you make this textile expand is to have all the horses pulling on all the strings. And of course if that is the value-creation process, if you slack off on one string the whole cloth goes slack. The question is whether we sometimes do things in business which demotivate any of these players.

For example, we have seen managerial excesses in the United States that have led to stricter business regulation because of powerful public outcry. It is probably going to be more difficult to create value in these conditions because we are now less free. Or sometimes employees are so demotivated that they simply withdraw their support from the value-creation engine.

To my way of thinking there could be two ways of thinking about this. The first would be a shareholder value push in which you set shareholder value as the goal. I think that increased shareholder value is a great result but a poor goal. It is like getting up in the morning and saying "I want to be happy". But the way to be happy is to engage in things that you like doing so that you will be happy at the end of the day. Shareholder value is almost identical. If you set shareholder value as the thing that is right in front of your face, the odds are you will not achieve it. This is what I call "shareholder value push". You actually get caught in a vicious circle. This reduces shareholder value because you are so intent on drawing funds out of the company in order to satisfy the shareholders that you demotivate other parts of the engine.

If you think of "shareholder value pull", or as shareholder value as one of several stakeholder purposes, the fulfillment of those other pur-

poses will also be achieved and “virtuous” circles will result, the final consequence being that you get more value.

If we accept these ideas, the question is what to do about them. I have a few suggestions from observation of practice, from watching companies that seem to me in good balance.

One priority is to set goals for very high levels of value creation. If you do not set high goals, you do not bake a big cake. It is like a birthday party. If you do not have a big enough cake you end up squabbling about your share. Therefore, a precondition for the machine to work well is to have very high ambitions. In other words, just beating last year’s budget or doing better than you did before is not good enough. You have to be thinking about opportunity, you have to see opportunities that were not there before, etc.

I think that mission statements can be really powerful in bringing people together behind the engine of value creation. Just to mention one or two, a company called Alcon, which makes ophthalmic pharmaceuticals and surgical equipment, has this mission statement: “Preserving and restoring sight”. This is a lot better for motivating the people who work there than asking them to create more value for shareholders. “Preserving and restoring sight” is a good mission. The IEDC’s statement - “A school with a view” - is also very motivating.

Frequent articulation of broader corporate purpose by the leader is also essential. If people do not stand up and say what they believe in, they will not go far. They need to articulate their broader ideas, or else the constituencies on whom they depend for value creation will not support them.

Most of us in the strategic field think in terms of competencies on one side and opportunities on the other. Strategy is somehow a mixture of the two. In fact, there are four inputs to every decision. One is what you can do, that is, your competencies. The next is what you could do, which is your opportunities. But there are two more. What you want to do - your personal passions - and what you should do - a sense of responsibility - are also important. I think that companies that take care of the macro as well the micro level are intuitively injecting a good dose of “want” and “should” in addition to “can” and “could”.

Lastly, if you do not line your control system up with these priorities, you will not get far. If on one side you articulate a broader purpose but

on the other side your control system is tied to volume goals only, you are not going to achieve success. This is the old story of alignment: bring all parts of the system and structure and the incentive scheme into line with what you are trying to do.

Branislav Čanak

LEADERSHIP FOR THE FUTURE

It is obvious to me that we are here today to talk about the future. But it is also obvious that we are not talking about just any future, we are talking about the future that has already begun. The question is how we can recognize the future that is already with us. How can we learn what has caused the future to start earlier than we expected? Once we have learned to do that, we will become a part of it. Then we will be able to manage it. The other option is that we, unable to answer this challenge, will react as shocked when we realize that future is departing without us. The answer to this issue is of crucial importance. We can either react defensively and close ourselves into a time shell, or open up all our emotional and intellectual receptors and seek a role in coming developments.

One of the philosophical issues that we should address is the question of who creates what: is it leaders who create agendas, or do agendas create leaders? Is an agenda a matter for all, or is it just a leader's vision? Today, we have talked about charisma and agendas. But the relationship between the two is also important.

I think that while discussing the future, we must examine our past, because some issues concerning the future are reflected there. This applies especially to the past of Central and Eastern Europe. Thomas Hobbes said that there is no state, including Leviathan, that can force people to kill others or to become willing to be killed. But we know how many times just this was successfully attempted in previous centuries. Is it the state that forces people to kill other people? Or was there something else before that? Perhaps leaders created states that forced people to kill other people and become willing to get killed?

Leaders are obviously very important. They can create a state. But can we in the state decide that we want to create leaders? Can we place

an agenda in front of leaders and elect whomever is willing to accept it and carry it out?

In our countries, those in transition, we do not have good methods of assessing our overall environment. Unfortunately, it is mostly our leaders who are assessing our past and future as turbulent, and we accept this even though it was also typical of the authoritarian regimes from whom we now distance ourselves. Most of the leaders that I know are not socially oriented and socially based. They do not represent the basic and strategic interests of the society they come from. When you do not represent social interests, it is easy to start behaving irresponsibly. If you have an agenda that is not socially oriented, you become estranged from the group of people that you are leading. By social orientation I do not just mean what comes with my job as a trade union leader. Here I am not forgetting the fact that Europe is different from other parts of the world in some important things, one of them being its social model, created after the Second World War. But that is not the main issue either, although it should be a platform for developing any vision. The main point is that you do not have a real vision unless it reflects the visions of other people. Our countries, including my own, must accept that there is such a thing as a civil society. This refers not just to non-government organizations. It is the philosophy of today's world, globalized, confronted by wealth and poverty, by haves and have-nots of what makes humans human. In a civil society you do important things which are governmentally important, but you do not represent government. You represent yourself, your family, friends, neighbours and co-workers, and you do it very differently from government, sometimes approaching needs more closely than government can. That is exactly how civil society creates agendas for political leaders, who should pass muster there, rather than at elections.

2

In our societies of transition, we have seen many agendas. Our leaders are critical of our past, blaming it for all their troubles; and they often make promises which they cannot keep. This causes ordinary people to lead their lives suspended somewhere between the two poles of criticism of the past and promises for the future. Obviously, however, we need leaders for the present. We have had too many leaders who have focused on the past: and these leaders have actually provoked four wars in the region. We have also heard too many promises. But we have no leaders who can take care of what is happening now.

Since we began this session with Aristotle, I ask your permission to finish off with one of his thoughts. He said that excellence is “not an act, but a manner”.

We have too many leaders who seem perfect today, but might be nobodies tomorrow. This is not what we would like, but because they were born for one day only, and lack the capacity to survive for another. They only remain in their posts because we lack the necessary mechanisms to get rid of them, even when it is obvious to the majority that they should go.

What we need in Serbia and Montenegro is a bridge to the European Union, but not only an economic one. We need a bridge to the values that we will have to adopt one day. Nobody can expect that a signed agreement will make someone respect values. How can anybody expect that an international treaty is enough to achieve this? Values have never been introduced by law, treaty, or agreement; they are part of your life. They are part of civilization: its foundation, and the basis of codes, laws, and contracts.

We need a bridge to show us what values we should adopt as members of the European Union. When we have one, everything will be much easier. The most important thing is just what Mr. Potočnik said earlier this afternoon: we need values for ourselves, and not because Europe requires them. To become a member of the EU is “not an act, but a manner”.



SUMMARY OF GROUP DISCUSSIONS

Is there a specific way in which European business interacts with its various stakeholders? How should it interact?

Conclusions of group discussions

GROUP 1

There is nothing specific in the way that business in Europe as a whole relates to stakeholders. But there is specificity in this interaction as it occurs in different countries and regions. This brings up the issue of diversity as mentioned yesterday. If there is one thing that is diverse in Europe, it is the way that stakeholders interact. In Holland, for example, you have the so-called polder model. Three quarters of our territory used to be under water. We keep it from flooding by means of polders and dikes, and we have to discuss this system in order to keep it going. But although the polder model was very successful for quite some time, we now see that it is reaching the end of its lifecycle.

In the northern part of Germany there is the Rhineland model, and there are other models as well. These models are influenced by our history and culture. In the North, Protestant ethics have had a great influence on the model in the framework of which various stakeholders work together. In Germany you see that the northern way of doing business is different from the Bavarian way. There is an Italian and a Scandinavian way of doing business, too. Therefore, the answer is “no”, there is no such thing as a common European specificity.

Is there a need for one model? It is probably better to ask what we can learn from these various models. They have one thing in common: they are all trying to reinvent themselves. What we can do then is to have more exchange of best practices and learn how and why different mo-

dels work. I believe that the IEDC should devote a special part of its website to a discussion forum where we could make suggestions and exchange ideas. Here we would also be able to keep in touch with home - the Bled School of Management - where this discussion started.

GROUP 2

We think that there is a specificity in the way that European business leaders interact with stakeholders. We have a stronger social system and much less pressure from shareholders than in the United States.

As for ways of improvement, we focused on European Union competitiveness, instead of interaction with shareholders. We think that we should develop unique concepts and incentives for research and development. That would make us more competitive with respect to America and Asia.

We also discussed small and medium-sized enterprises. We feel that we should invest in, and develop concepts for, such enterprises in Europe.

GROUP 3

We think that there is something very exceptional in Europe: the establishment of a social and ecological market system. It does not really exist anywhere else. We discussed whether this is true of all Europe or just the European Union. My impression, as a Pole, is that this is still an item on our wish-list, but we will make it come true yet.

We also mentioned that there is a fairly good system of legal protection for stakeholder value. It differs from the situation in America and Asia. In Asia, legal protection is extended in a traditional, not legal, way. In America, on the other hand, there is more free economy and less regulation.

Another thing we discussed is the fact that Europe does a balancing act between competition and cooperation. This comes from the very nature of the continent, as a mosaic of dissimilar countries. Poland, for example, has almost 40 million people, whereas Slovenia has only 2 million. Yet we cannot stand up to powers such as Russia used to be, or such as the United States is now. In order to survive, we must not only compete each other, but also cooperate. We can promote our development through an exchange of ideas.

We believe that the key to improvement of the general situation is communication with stakeholders. We have to talk to private companies, to local governments, to individuals, and explain to them the purpose of our business.

We also agreed that tackling corruption is a must if we want to improve the general atmosphere.

Another thing discussed is that in addition to improving things in our home countries, we must learn from other regions. Definitely, our awareness of the key success factors in America, and especially in Asia, is extremely low. If you ask ordinary managers about such things, they will shrug their shoulders. But if you want them to improve, you have to educate them and then allow them to try their hand at something new.

Finally, we believe that it might be a good idea to try to change the connotation of the word “profit” in our culture. In some of our countries, we tend not to mention profit as an organizational goal, as we feel awkward about it. In some cases, the word has a negative connotation.

GROUP 4

Stakeholders have both different and common interests, or perhaps it is rather the emphasis that is different. There is clearly a plurality of interests.

There is definitely a lot of scope for enrichment of the relationship between business and stakeholders. Sharing and shaping the goals of business would be one of them, as well as involving local communities and various interests. Seeking better mutual understanding of the benefits is also essential, especially in South-Eastern Europe, where we see latent opposition to foreign investment although public policy-makers say they wish to attract such investment. The reason is a lack of understanding of the potential benefits: jobs, export opportunities, etc.

More education and more communication involving all stakeholders would be helpful. Actually, even in Western Europe there is not always a perfect understanding of the benefits of foreign investment. If we lack that understanding, how can we avail ourselves of the benefits?

GROUP 5

We talked about motivation in Europe. That will not be a problem in the case of the new entrants, as they have already decided to accede to the

European Union. The real risk is in Western Europe, where motivation is lacking. The biggest issue there is that in the case of stakeholders we spread the pain around. We have to change that philosophy through motivation in terms of competitiveness across world markets. We need to spread the European Union's motivation and enjoyment.

GROUP 6

Yes, there is a specificity in the way that stakeholders in Europe view business in general. Our trade unions are very different from those of other countries. There is a Rhine model that devotes greater attention to employees and members of the broader community than is normal in South-East Asia or the United States.

We also feel that some of the bonds of solidarity in our societies are disappearing. This has profound implications for society at large.

One of the specificities in Europe is the rigidity of our labour legislation. It blocks the movement of labour.

We recommend a deeper understanding of the long-term objectives of business by stakeholders in general. Business leaders should spend more of their time in public administration and politics. Here, they would work for the common good from a different angle.

Business schools should be meeting points for business leaders, academics, civil servants, and trade unions. These should interact and learn to understand their respective roles in society. I believe that the role of a business school is to facilitate a shift away from the concept of materialism dominating our society. In our consumerist society the only thing that matters is personal wealth and profitability. We need to get back to some basics. Let us not forget that in addition to markets, Adam Smith also talked of social values and solidarity. Let us return to those basics and work out what they mean; and let us explain that profit is a means, not a final end.

CREATING AN AGENDA FOR EUROPEAN LEADERSHIP

IEDC-Bled School of Management, Slovenia

Bled, 10–11 June, 2003

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CREATING AN AGENDA FOR EUROPEAN LEADERSHIP

IEDC-Bled School of Management, Slovenia

Bled, 10–11 June, 2003

Honorary Chairman:

Milan Kučan, *former President of the Republic of Slovenia*

Conference Chairman:

Derek Abell, *President, European School of Management and Technology, Germany*

DAY 1: TUESDAY, 10 JUNE 2003

- From 17:00** **Registration and Welcome**
- 18:00 – 18:10** **Welcome**
Danica Purg, *Director, European Leadership Centre and Dean, IEDC–Bled School of Management, Slovenia*
- 18:10 – 18:20** **Introduction**
Derek Abell, *Conference Chairman*
- 18:20 – 18:40** **The Future of Europe**
Milan Kučan, *former President of the Republic of Slovenia*
- 18:40 – 19:25** **How Does Europe Stand**
Joachim Bitterlich, *Executive Vice President, Veolia Environnement, France*
Dobroslav Milovanović, *Deputy Minister for International Economic Relations, Serbia and Montenegro*
Zlatko Lagumdžija, *President, Social Democratic Party of Bosnia and Herzegovina*
- 19:25 – 20:15** **Leadership Challenges**
Derek Abell, *President, European School of Management and Technology, Germany*
Helmut Sihler, *Head of Supervisory Board Porsche AG, Germany and Vice-Chairman, Novartis AG, Switzerland*
- 20:30** **Dinner**

DAY 2: WEDNESDAY, 11 JUNE 2003

- 09:00 – 9:45** **Plenary session 1: Perspectives on the Challenges and Role of European Business Leadership**
Moderated by:
Pierre Casse, *Associate Dean for International Affairs, Business School of the University of Aix-en-Provence, France*
Franz Nawratil, *Chairman Emeritus, Hewlett-Packard EMEA, Switzerland*
Peter Rohleder, *Chief Executive and Founder, Lavandoo SA, Switzerland*
Vladimir Preveden, *Project Manager, Roland Berger Strategy Consultants, Austria*
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09:45 – 10:30	Group work as response to the plenary session
10:30 – 10:50	Plenary session feed-back by groups' spokesperson
10:50 – 11:10	Coffee break
11:10 – 12:00	<p>Plenary session 2: Perspectives on the Challenges and Role of European Government Leadership Moderated by: Peter Rohleder, <i>Chief Executive, Lavandoo SA, Switzerland</i> Janez Potočnik, <i>Minister for European Affairs, Slovenia</i> Melanie Johnson, <i>Parliamentary Under-Secretary of State for Competition, Consumers and Markets, United Kingdom</i> Erhard Busek, <i>Special Coordinator of the Stability Pact and former Vice Chancellor of Austria</i></p>
12:00 – 12:45	Group work as response to the plenary session
12:45 – 13:00	Plenary session feedback by groups' spokesperson
13:00 – 14:00	Lunch
14:00 – 14:45	<p>Plenary session 3: Perspectives on the Role of Major Stakeholders in the Development and Practice of European Leadership Moderated by: Paul Claudel, <i>Professor, University Aix-en-Provence, France</i> Jonathan Gosling, <i>Director, Centre for Leadership Studies, Exeter University, United Kingdom</i> Derek Abell, <i>President, European School of Management and Technology, Germany</i> Lev Kreft, <i>President, Peace Institute Ljubljana, Slovenia</i> Branislav Čanak, <i>President, Trade Union Confederation Nezavisnost, Serbia and Montenegro</i></p>
14:45 – 15:30	Group work as response to the plenary session
15:30 – 15:50	Plenary session feed-back by groups' spokesperson
15:50 – 16:00	Conclusions by the Conference Chairman Derek Abell