

Interviews with leading minds

Dr. Peter Kraljič launches a call to action to Europe's political leadership

The famous management expert Peter Kraljič talks about the history of his involvement with IEDC-Bled School of Management and the challenges he had to address while serving as President of the IEDC supervisory board. In the interview with Mark Vanderbeeken, he also addresses the fact that countries in Central and Eastern Europe are not doing enough to remain competitive on a global scale, the lack of vision and strategy on a political level, which is causing Europe to stagnate, fall back, and perform below its true potential. He speaks at length about the growing risks of a new brain drain, increasingly split societies, the danger of economic colonization, the total lack of political role models, the egoism of Western Europe, and the birth of a new European apartheid — where not everyone is equal and different labor rules apply depending on your nationality — that nobody speaks out against.

You are one of those Slovenes with a very international background.

I am indeed of Slovenian origin, and I was born in former Yugoslavia. I left the country in 1965 to do a PhD in Germany. I continued working abroad, initially in Luxembourg. A few years later, after I have joined McKinsey, I took a sabbatical and went to INSEAD to get some business education, as my previous training was in technical science: I am a metallurgist. I joined McKinsey in 1970 and worked for them in Germany until 1992, when I was transferred to McKinsey France. As directeur-général, I was responsible for McKinsey's activities in France for six years. I stayed in France until 2000 and

About Peter Kraljič

Dr. Peter Kraljič, a member of the McKinsey Advisory Council, was until June 2002 Senior Director in McKinsey. He joined McKinsey in 1970. He was promoted to Principal in 1977 and to Director in 1982. He was for a number of years a member of McKinsey's Shareholders, Firm Development and Personnel Development Committees and has managed from 1993 to 1998 the McKinsey activities in France. Prior to joining the Firm, he worked for six years in metallurgical research with companies in Yugoslavia, Germany and Luxembourg.

Dr. Peter Kraljič has published a number of scientific and business articles, for example in the Archiv für das Eisenhüttenwesen, Columbia Journal of Business, Harvard Business Review, Manager Magazine and Le Figaro Economie. He has given speeches to many client organizations, institutions (such as Aspen) and forums (such as Crans Montana) on a wide range of topics such as supply management and operational effectiveness, organization and post-merger management, human resources and more recently also on change management and restructuring of Eastern European industries and companies.

Lately, Dr. Kraljič has been leading special projects aiming at economic growth and job creation in Germany and Brazil. He also led a project looking at the attractiveness of Central and Eastern European countries for foreign direct investments, based upon a set of macro- and micro-economic criteria.

A graduate from the University of Ljubljana, Slovenia, with a degree in metallurgy, Dr. Kraljič also holds a Ph.D. from the Technical University of Hannover, and an MBA from INSEAD.

Dr. Kraljič has been collaborating with IEDC-Bled School of Management since 1989. For 10 years he was President of the Supervisory Board of the IEDC, and since 2003 he has been coaching the EMBA consulting projects.

then went back to Germany until 2002, when I retired.

In the process you also became a Dutch citizen.

When the war in Yugoslavia started in 1991, I couldn't travel anymore, because the Yugoslav passport was not the most appreciated one. So I applied for Dutch citizenship, because my wife and all our children are Dutch. So I became a naturalized Dutch.

You have remained quite connected with Slovenia, though.

I was always in touch with Yugoslavia. I was traveling there frequently. All my relatives were in Yugoslavia. I also went there often for vacation. Yugoslav communism was not as bad as the Soviet one. And McKinsey also did some projects there, working together with some major companies like Energoinvest or ISKRA.

How did the relationship with the IEDC-Bled School of Management start?

I got involved with what was the predecessor of the Bled school, the Centre for Management Education in Brdo, which Prof. Danica Purg was already leading. She was looking for some speakers and professors, and one of the INSEAD professors told her that there is someone from Slovenia, who is dealing with management techniques and topics. So she invited me. The first time was in 1986, still in the old Yugoslavia. I gave a presentation, twice a year, about the success factors of Western companies. It created quite a lot of interest among the Slovenian or Yugoslav executives. However, the school already had a good reputation before I became the president of the supervisory board. The key was to also establish the IEDC brand name and we have been successful in that, particularly thanks to the efforts of its director, Prof. Purg. The "Center of management education" had to reach beyond Slovenia, since the market for the school could not be just our small country. We had to have a reach out to ex-Yugoslav countries and other Central and Eastern Europe countries. This meant that we needed to assure quality in the faculty and in the participants. We had to make

sure that we had good professors, particularly from the West, since there were not yet enough qualified people from within the country. We created a virtual faculty, which worked extremely well, because we got some terrific professors to support us, and they are still supporting us. We also started to reconsider our location. The old location was good, but the facilities were not very good. The school was located within a hotel.



The School moved from Brdo to Bled.

Thanks to the efforts of the director, Prof. Purg and some of the Slovenian companies' presidents, such as Mr. Dragonja, who understood our needs and were supportive of the school, we found a new facility in Bled and invested in it to make it into a modern school. This was basically the main task in the beginning.

Didn't IEDC in the last 20 years educate some important leaders in Slovenia?

Yes, the best example is probably Mrs. Fink, the very successful CEO of Trimo Trebnje, an export-oriented and very fast growing Slovenian company. There are some other examples from Slovenia

like Mr. Kryžanowsky, the head of Petrol, and Mr. Seljak who is a member of the board of Hidria, a very successful Slovenian mid-size company. Slowly people who went through the school are now coming to positions of power in Slovenia. This will be a positive development in the long term.

Is there still a specific Central and Eastern European role for IEDC?

I don't think so. What you have to learn is independent of whether you come from the East or the West. The rules of the game are the same. It is pretty tough now. We are all part of the globalization game. The school probably has an advantage that it better understands the problems and the mentality, the strengths and weaknesses, of the people in transition countries, which the Westerners often do not fully appreciate. This is where the school is probably better positioned to attract or develop people, or deal with them in the right manner or with the right sensitivity. But that said, what you have to learn and how you have to perform, is the same now in Slovenia, in Poland, in Germany, or in the United States.

But the context is still a bit different, no?

Yes, it is.

And you may even say that this is to the advantage of the countries in Central and Eastern Europe, because it is easier for them to make a leap jump, than it is for Western countries.

Yes, but they are not leaping. That is the problem. I am afraid there is a big danger that we will remain the poor relatives of rich Western Europe. There is progress no doubt in many dimensions: economic, democratic, and so on. But the progress is not fast enough. **We are neither creeping, nor leaping.** And that is the problem. Most Central and Eastern European countries are simply not competitive. Our governments need to tackle competitiveness. Instead, they just talk

about reform and about how the GDP per capita is growing, about the 5% growth in Slovenia, and the 8% growth in Estonia, which is terrific, yet not enough, as very few countries have really improved their competitive position.

So Central and Eastern Europe countries are not doing enough.

If you look at the best-placed country from Central and Eastern Europe in terms of competitiveness, it is not Slovenia, but Estonia. What the hell is going on when the best, Estonia, is number 25 in the world in terms of competitiveness? And Slovenia, which always claims to be among the leading Eastern European countries, is now only number 33 in the world? This is not exactly the best position, in particular if you look at other small countries. Iceland is number 14. How can Iceland be number 14 and Slovenia only number 33? These are the questions that the political leadership does not understand in this country.

Business leaders do?

The management of export-oriented companies does, because they have to fight the battle on the market. Companies that are more domestically focused have been protected so far. So they are less aware of it. These companies are also less competitive and less productive, starting with Slovenia. The further East you go, the more productivity and competitiveness drops. If you look at the competitiveness of Romania and Bulgaria, who just joined the EU, you will see that they are about number 70 in the world. They have a major leap to make. Slovenia itself is stagnating, in fact even dropping, in competitiveness. The only countries with really progress are the Baltic ones, particularly Estonia, which has done a number of deep cutting reforms that brought it to a better competitive position, indeed the best competitive position among all Central and Eastern European countries.

But it is not yet seen as a problem.

The sense of urgency and the understanding of how ruthless the global competitive game has become, is not yet fully absorbed by the leadership in our countries. There are four levels of competitiveness: the country level, the regional level, the sector level and the company level. You start with the country competitiveness, because it will set the framework within which companies in the country can be competitive. Countries are the macro level. We have first to make the right decisions here. The next – mezzo - levels are regions and sectors, as you must understand the characteristics of the regions and sectors in the countries and how they are performing. Finally there is the micro-level of the individual companies. And we have a mixed bag there. Let's take Slovenia as an example. Some of our companies are pretty competitive on a global scale. Most of these are mid-sized and small, like Hidria or Iskra Avtoelektrika. They have a turnover of between 300 and 600 million euro, maximum 1 billion euro, which is small by Western standards. Others are not so competitive. Some of our sectors, like the furniture and shoe industry, are close to dying and I ask myself why.

Why are they not competitive?

Mura, a big Slovenian company with an eighty-year tradition in textile, is hardly surviving. It is laying off people. Zara from Spain is a five or six billion euro company. Ten years ago nobody had heard of Zara. In the same industry you have a big success story with Zara and an example of a failure with Mura. And it is not a question of labor cost, though people claim that we are expensive, because the Spanish are definitely more expensive than the Slovenes. It is a question of culture, strategy and management vision and knowledge.

You speak about management knowledge. Is it a problem still that the best and the brightest are not working in Central and Eastern Europe?

That depends on the country. Some countries have had more brain drain

than others. Slovenia has been lucky so far, because our brain drain has not been too bad. Other countries suffer, like Bulgaria and Serbia, suffered. A lot of young people left. Our brain drain will perhaps come a few years from now, when a new generation will be leaving, if the right opportunities will not exist in Slovenia. The lack of substantial brain drain was probably one of the reasons why we were moving ahead and why our management developed. But there was no clear vision and strategy from the political level to support this move ahead. Where should our country go? What should be developed? What do we need to succeed as a country? And what conditions should we set to make our country and companies more competitive?

So there is a lack of consistent vision on a political level.

If you look at the main pillars that together constitute global competitiveness, Slovenia is placed number 19 for health and primary education, which is great, but we are number 60 in market efficiency and number 40 in institutions and political structures. We didn't have a consistent strategy on how to develop the country and this is why we are falling back. There is no consistent approach where government, management, trade unions and other institutions like universities, work together on a consistent plan on how to develop Slovenia, particularly those elements where we are sub-performing. In Slovenia we have a great opportunity, to be among the most competitive and fastest growing countries in Europe. We are good, but we are not excellent. We are average. And that's the problem. And it is even worse for most other countries, except the Baltics. All others are pretty much in the same shape as we are.

What role can a business school, such as IEDC, play in creating or facilitating such an ecosystem where government, trade unions, universities, managers, come together, share the same vision, and go for it? How can a business school help improve the context, in which

the managers they develop, will eventually have to work?

The school can declare that certain things are needed, but the school cannot decide of course. The school can contribute through the development of good managers. I think it is doing this and we still need much more and much better educated management. But the key decision maker here is not the school. The school can only be a contributor, not even a player. The players are the government, the heads of the employers association, the management of the top companies, and the leaders of the trade unions. However, if you look at the cooperation between trade unions, employers and government in Slovenia, it's not the best. Instead of going for what the Dutch call the consensus-driven "polder model", each one of them is pulling in a different direction. There is not a lot of consensus. We rate very low on the collaboration between labor and employers, and on the cooperation between university research and industry research.

But Slovenia spends a lot of its GDP on research and development, no?

Yes, Slovenia spends 1.6 or 1.7 % of GDP on research and development, which is a very high number, compared to even Western countries. But despite the fact Slovenia does indeed spend a lot on R&D, we have very few really innovative products. The share of our innovative products in our export is relatively low. The reason is that there is not enough cooperation between university research and industry research. There is not enough market focus. There is not even enough cooperation between companies within the same industry, in order to develop a cluster, which would focus our scarce resources into developing a growth product or service. So despite the high input, our output in terms of innovative products is relatively low. And this is just one example.

Of course, this is obviously an issue that the government has to confront. But how can a business school help

create a debate, an openness on these topics?

What IEDC can do and what IEDC is also doing, is to create awareness and to contribute to the debate. Each year the Presidents' Forum is addressing important topics. Maybe the school should organize a seminar just on the question of competitiveness, not only of Slovenia, but also of other transition countries. The problem is that these events are rarely attended by political people who have a decisive role. I don't know why. Maybe they don't like these event or they think they already know everything.

Perhaps they have no time.

Yes, politicians are probably too busy presenting Slovenia as a success story. And it is a success case if you look at it in terms of absolute progress, absolute wellbeing, and the richness. We now have the Euro and so on. These are all successes that nobody denies. The point is that this success should have been double. This is a question of our aspiration and vision, which is missing. Here the school can definitely help create more awareness. But if nobody listens, if the willingness to listen on the other side is so limited, that doesn't really matter.

Many things you say do also apply to Western European countries.

Definitely.

What are then the specific challenges for Central and Eastern European countries?

The sense of urgency applies to all of Europe. But in Western Europe, smaller countries are doing very well. They understood it. Smaller countries like the Scandinavian countries, the Netherlands, Austria, and so on, have done their reforms and are performing very well. The problems in Western Europe are the big countries. Not England, which has done its share of reforms, but Germany, France and Italy. These big countries are pretty stuck. They have to do the same reforms as the smaller countries but

they are more complex. I understand the complexity of changing something in Germany. I was the only foreign member of the German Hartz commission, looking at the reform of the German labor market. It is a very complex topic and it took four or five years to implement the first recommendations. There was a lot of resistance, particularly from trade unions.

Do you sense that there is a feeling in Central and Eastern Europe among a certain part of the population, and a certain part of the opinion leaders that these problems are shared, that they have to stick together, find solutions together, rather than each country for itself?

I don't think so and for a simple reason: there is a lack of leadership in all these countries. There are no positive role models. Give me one leader in Central and Eastern Europe who is a real role model for the young people in his or her country, and who really understands what is at stake, beyond the political maneuvering that they are doing; someone who is really a visionary willing to change his country in a dramatic way. If there are no role models on these top levels, from who should other people learn? I think the same lack of leadership also affects Western countries. But there are different levels and standards of sophistication in the West, so the downsides are not that big. I spoke yesterday with someone from Romania and we discussed the situation. Romania is now full of expectation and very happy to join Europe. But if you look at them, you realize that they are really the poor relatives of Europe. Their GDP per capita is 3,000 euro. In Western Europe it is 30,000 on average. Luxembourg has 45,000. But there is hope over there. They are hoping that something will happen. But they don't understand how difficult the road is going to be and what they will have to do to really succeed. They are not aware of the egoism of Western Europe.

The supremacy of national interests...

The European Union is very split because of national interests everywhere. There is no common policy on military or foreign affairs. **There is even a form of apartheid in Europe.** Workers from Romania and Bulgaria, and even from Slovenia, are not allowed to work in Austria and Germany. It is not the question of whether they want to go or not, but they are not allowed to go. So how can you tell me that we are a European Community when part of the population is not allowed to seek labor in another country? It is a clear system of apartheid. The fact that nobody of the political elite of Eastern Europe is taking the case to the European Court, to the Court of Justice in The Hague, means that they don't dare or care or they don't understand. The Lisbon strategy objective stated that Europe should become the most competitive region by 2010. Forget it. The objective was right, but it will be missed, because of different national interests and due to non-qualified politicians that we carry around and who are dragging all the reforms. There is no way that we can become the most competitive region by 2010.

Yet, we have so many resources.

Europe still has the biggest intellectual and economic potential in the world, because of its diversity, its different cultures, which can enrich each other. We have very high educational and technological standards, very good infrastructure, and very good people. We are rich. Europe is rich, in particular Western Europe. But on the other side, we have all these national interests and we have politicians who don't put a joint vision forward anymore. The big old names are gone, and what is left is just a bunch of people who are fighting for their position, and don't think of Europe as such. They talk about it but they don't act on it. I am just saying that Western Europe is performing below its true potential, and as a consequence also the Eastern European countries are. We will unfortunately need much more time to finish the transition and it will be much more painful than people believe.

People will be disappointed.

They already are. Well, just to illustrate the egoism, let's look at some numbers. The European Union allocated something like 45 billion euro of funds over the first three years to the ten new countries who joined the EU in May 2004, which you can say is a lot of money; 45 billion euros over three years for 70 million people. At the same time, Germany is subsidizing the ex-DDR, or the new German states, with its 17 million people, every year with 70 billion euros. So over three years that is more than 200 billion euros, whereas in three years all the other ex-communist countries will have gotten 45 billion euros. And they have four times the population. These are the numbers that nobody talks about. This is the situation that nobody talks about. While we celebrate that we have now free Europe and that communism is now gone, I think the leadership in our transition countries did not come up with a clear vision, coherent strategy, and shared objectives. There is a lot of talking but the moment you dig one or two levels below, all national interests, diversities, preferences and even egoism, come to full bearing. Things are moving very, very slowly. Because of that, the whole transition will take much more time and will be much more painful.

IEDC Bled has taken some initiative in focusing on these issues by founding a European Leadership Centre and organizing its annual conference. Do you think business schools may need to do more, e.g. starting an MBA for those working in the public sector?

The public sector needs to send its people to MBA programs. 80% of the skills of the top people in public administration are the skills required of any top management. People in the public services are sometimes taking very important decisions, and are not necessarily well prepared to take them, not only from a macro-economic or political perspective, but also from understanding the micro-economic one. They need a certain education for that. Sending the top civil servants to business schools would be very helpful. Should we have a special business

school for it? France has its ENA. But opinions on that are very diverse. On the side it is good, as there are perhaps some special tasks or skills required of public servants. On the other side you create a new cast, a layer of people who are so rigid and so fixed on their interests that they are suffocating even the French economy. So there are many minuses to that approach. Definitely there is a need for more management training.

In short, more qualified managers in the civil service.

Yes, but also in the government! Just look at the government: we are in the middle of this global competition. How many of the government members, for instance in Slovenia, have ever worked abroad, to understand what a competitive environment actually means? OK, maybe I don't expect that from the Minister of Justice, but I do think it would be helpful if the Minister of Economy or the Minister of Industry would have worked abroad in a foreign company to better understand what kind of competition we have. In Serbia, (the assassinated prime minister) Zoran Djindjic asked three or four Serbian people to come back from the West and join his government. He was aware of the need to bring some experienced people from abroad into the government and into top positions.

Also important is the immediate support staff: the chief of cabinet, the advisors.

I am telling that all the time. We need all the best resources we have. Our successful young people who are now in the West might be willing to come back to Slovakia, the Czech Republic or Romania, if you give them responsible positions and not interfere with them for egoistic political reasons. This would really accelerate the development of the countries – and region - and speed up the necessary reforms. Despite all the progress so far, there is still a lot to be done.