THE SARAJEVO GRADUATE SCHOOL OF BUSINESS[1]

Paul Laux, Alfred Lerner College of Business and Economics, University of Delaware, 310 Purnell Hall, Newark, DE 19716, 302 831 6598, laux@udel.edu
John Stocker, Alfred Lerner College of Business and Economics, University of Delaware, 316D Purnell Hall, Newark, DE 19716, 302 419 7665, stockerj@lerner.udel.edu

ABSTRACT

The Sarajevo Graduate School of Business (SGSB) was created in 2004 as a joint venture between the University of Delaware and the University of Sarajevo with funding provided by the United States Agency for International Development. By 2008 both the University of Delaware and the University of Sarajevo had opted out of continuing and funding was ending. However, SGSB had succeeded in providing a US-style MBA education in English to an ethnically diverse student population of young managers from across Bosnia and six other countries. The primary issue to be addressed was whether a viable business model could be put together that would attract new partner institutions and allow the MBA program to continue.

INTRODUCTION

In January, 2008, John Stocker was looking ahead to a set of meetings that would mean a new beginning or the end for the fledgling business school he had managed over the past couple of years. The Sarajevo Graduate School of Business (SGSB) provided US-style MBA education in English in Sarajevo, Bosnia. SGSB served an ethnically diverse student population of young managers from across Bosnia and six other countries. These meetings would, he hoped, bring two new partner organizations into the School's leadership. John was contemplating the analyses he would need to prepare for them.

Bosnia and Sarajevo

The country of Bosnia and Herzegovina ("BiH" or simply "Bosnia") was less than a decade from a regional war that had devastated the country, its capital city of Sarajevo, and much of the rest of the former Yugoslavia. Yugoslavia had been established after World War II as a communist federation cementing together six constituent "republics" under Josip Broz Tito, who had been the leader of a key Allies-supported resistance group during the war. Although all ethnically Slavic, each republic had its own historic, cultural and religious character. These regional disparities and histories, along with other factors including especially being a pawn of outside empires from the Ottoman to the Austrian, had long rendered the Balkan region in which Yugoslavia was situated as a politically unstable tinderbox. Sarajevo was perhaps most famous to westerners as the site of the assassination that sparked World War I. Moreover, each area's characteristic citizenry group had been, at one time or another, persecuted by

[1] This case was written for use in educational discussions and teaching, and not to depict either effective or ineffective management or decision-making. We have depended on other accounts of SGSB written by Conrado Gempesaw, Kliment Nachkov and John Stocker, as well as on our own recollections and records. Though this case is based on history, some modifications of numbers and time frames have been made for educational efficacy. Additionally, the exact thoughts of the character "John Stocker" have been fabricated for the same reason.

another's. For example, under Nazi control during World War II, a Croatian state oversaw the death of a great many Serbs and essentially all Jews.

The combination of strong Yugoslav central control under Tito in Belgrade in the Serbian Republic, a unique balance of modest independence from Moscow (partly due to geographical distance and partly due to Tito's skill, intransigence and nerve) and its insulating influence from outside meddling, and, perhaps most important, modest prosperity (partly derived as an arms supplier for the Soviet Bloc) help to keep Yugoslavia unified until 1992.

With the end of Tito and communism, Yugoslavia also ended and Bosnia was created from one of its regions. Soon war broke out. Serbia, a separate country also created as a result of the breakup of Yugoslavia, provided sympathy and support to Bosnian Serb forces, affiliated with the Republika Srpska within Bosnia. The Bosnian Serbs hoped at least to dislodge the Muslim majority from any power in Bosnia and at most to eradicate it. Croatia, also a separate country, had also played a central role in the runup to the war. In this highly complex and divisive context, even to say it was a "civil" war was a highly politicized statement. Bosnian Muslims ("Bosniaks") agreed with the eventual position of the US and the EU that it was a war of aggression, whereas Serbs (mostly Orthodox) and Croats (mostly Catholic) viewed it as a civil war.

During much of the war, Sarajevo was under siege from the surrounding hilltops by Bosnian Serb forces with substantial control over formerly Yugoslav military capabilities. With the breakdown of functioning government, corruption was widespread. Private and public property was extensively looted and/or destroyed, including inconic landmarks such as the parliament building and the historic Sarajevo library. Property ownership devolved to whoever had the power to hold it.

Overt aggression ended only after an estimated 100,000 or more civilians had died, and NATO forces had eventually intervened. Now, more than a decade later, the economic and cultural effects were still being felt. Memories of atrocities were still raw, and war criminals were still at large. The uncomfortable resolution, implemented via the 1995 Dayton Peace Accords under U.S. and European pressure and enforcement, resulted in several culturally-distinct political "entities" within the country of Bosnia. Now, in contrast to its former reputation as a melting-pot city, Sarajevo had become predominantly Bosniak in its orientation and population. Bosniaks were also somewhat more populous than Serbs across Bosnia, but some regions (the Republika Srpska entity) were nearly all Serb. Croats were also a significant minority, dominant in some "cantons" (administrative areas).

The entities maintained many duplicative government and civil functions, many of which overlapped with federal functions, which engendered a high level of bureaucracy and inefficiency. Perhaps surprisingly in this context, currency risk was not a significant issue. A "currency board" arrangement had been able to maintain an equivalence between local currency and the euro. In effect, the country was on the euro, since the value of two "convertible marks" to one euro was strictly enforced by central bank holdings of enough euros to back the entire local money supply.

All these factors contributed to a very poorly functioning economy in post-war Bosnia. Though post-war international aid was of direct help, it also served to focus a large share of local effort and talent on gaining a share of aid inflows, rather than on productive businesses. Business in Bosnia tended to be local, except where outside companies or investors worked on a country-wide basis. Austrian banks, in particular, had established a strong presence throughout Bosnia. It was in this context that the backers of the Sarajevo Graduate School of Business (SGSB) hoped to develop its educational business and make a difference.

The Sarajevo Graduate School of Business

In the Bosnian environment, a Western multi-ethnic educational institution was seen by many of its supporters as having high potential to eventually bring Bosnians together to do business by preparing young managers in Western business practices, and by building professional linkages between them.

SGSB was founded in 2004 with the financial backing of a division of the US State Department (USAID), and the educational backing of the University of Delaware Lerner College of Business and Economics (UD), whose MBA degree was bestowed upon graduates. UD entered into a 4-year contract with USAID to develop and implement a sustainable MBA program. UD could provide an AACSB-accredited degree—a strong credential—based on 50 years of US experience offering an MBA and had some brand recognition in the region due to prior projects in Eastern Europe over more than a decade. UD's dean, who had past experience running a joint MBA program between another US university and a Hungarian university, viewed the project as a staging ground for further expansion of university programs in the region, as a mark of distinctiveness, and as a source both of broadening work for faculty and of revenue via the USAID contract. To obtain the legal status needed to grant degrees in Bosnia, to satisfy USAID's desire for development of local capabilities, and to find help with teaching, facilities and administration, UD partnered with the University of Sarajevo Faculty of Economics and Business (SEB). The University had a 500 year history and a profile as the country's leading university.

John Stocker had joined the SGSB effort in 2005 as Chief of Party (a USAID term for the on-site manager). He also represented FLAG International LLC, a project management and investment firm in which he was a principal. FLAG had contracted with UD and USAID to provide managerial support for the project. John had extensive experience in both finance education and project management. John held a PhD in Finance and had taught as a professor in the US before becoming involved in educational projects in such places as Bulgaria and Afghanistan. He had also spearheaded for-profit projects outside the educational sector in eastern and southeastern Europe.

Between 2004 and 2007, SGSB taught and graduated thee cohorts totaling about 100 students from its two-year MBA program. John knew that the graduates were all employed, and many credited the program for significant career progress. In post surveys and testimonials, graduates frequently pointed to both operational knowledge gained and to the opportunity to build a network of professional contacts.

Over the years, faculty had come to SGSB both from UD and locally. UD faculty in finance, management, economics and accounting had taught in the program, both in concentrated-calendar courses on site and in tele-conference courses. UD faculty had teamed with local faculty to provide "on the job" training in western MBA teaching, and local faculty had visited UD for training and additional in-classroom experience teaching US students. While some local faculty were from SEB, most of them worked on a contract basis directly for SGSB. Faculty who worked on this basis included such people as a former US Treasury staffer in Moscow with Columbia PhD economics training, a Bosnian national trained in finance in Singapore, and others with international educational and business backgrounds. Overall, both student and faculty development appeared to be a modest success.

Nonetheless, the program had labored under significant challenges. Though UD originally entertained ideas of expansion elsewhere in the region, the practical work of operating the program fully occupied the international capabilities of the College, tensions across Bosnia seemed to increase somewhat rather than abate, Southeastern Europe (and even Eastern Europe as a whole) did not seem to be staging for intense growth, and the worldwide political situation in which UD had to operate as a US institution became very treacherous as the war in Iraq dragged on. Additionally, the overall size of the program remained small, leading some to question the size of the market for MBA education in Bosnia. The economic health of an MBA program generally requires a scale of operations significantly larger than SGSB's. Finally, in 2006, the SEB began marketing efforts on a competing English-language MBA program that would be fully under its control.

By 2007, the view from Delaware had changed, as had the UD business college's leadership. It was apparent that Delaware-based faculty had an increasingly difficult time to see the strategic link between the UD Lerner College and the operation in Bosnia, or to see the possibility for the program to lead to bigger things. The College's Delaware focus and its undergraduate core business also increasingly belied a close strategic match with SGSB. Moreover, low income levels in Bosnia prevented UD from charging US-level tuition for the program, and US faculty salary levels meant that paying for the teaching involvement of UD professors was disproportionately expensive. The view from across Sarajevo at the Faculty of Economics had also changed. SEB did not want to continue its support if UD would continue to have operational and academic control. Finally, the financial support of USAID, which had offset the tuition and cost issues for UD and contributed to its net revenues, was set to expire soon. UD's new dean, Conrado "Bobby" Gempesaw, made several visits to Sarajevo to work with the program, its partners and its leaders. UD administration made the decision to withdraw from offering its degree under the SGSB banner when its contractual obligations to USAID and its educational commitment to provide a degree to already-matriculated students were satisfied.

Possible SGSB Futures

Given its contractual commitment to USAID to develop a sustainable program, UD nonetheless wanted SGSB to continue to provide a US-style MBA degree. It was prepared to cooperate with FLAG in a transition to some new basis of operations. Finally, the value of the degree granted to those students and prior students would be seriously debased if the program closed down—something UD, USAID and FLAG all agreed would be a shame.

John had decided to focus on two related alternative possibilities for continuing the operation. One would be to find a new US partner institution to provide a program similar to the UD program. Another would be to find a new US partner to provide a shorter, more cost-efficient program that might still confer much of the benefits of the longer US-style MBA. Both alternatives would probably involve finding a new local partner also, or else ceding significant control to the SEB. This seemed somewhat unattractive due to SEB's inexperience with MBA and US-style programs.

In either case, FLAG International, as a for-profit company, might need to be involved as a managing partner and capital provider. It was difficult to imagine a small US university having the personell and reach to handle day-to-day control. Universities often deem it inappropriate to put capital at risk in international ventures. FLAG considered that its minimum cost of capital for any purpose was about 10 percent, and that operations in Bosnia involved risk that it could not effectively diversify. For other projects of comparable risk, FLAG had been willing to plan under the expectation of an additional risk premium of 5 percent. For profit-motivated projects in eastern Europe in the past, FLAG had required a planned cash profit per year in the range of 30 percent to move ahead.

To simplify the tax issues involved in partnering with not-for-profit universities, John knew that FLAG could set up a local not-for-profit foundation that would not incur income tax as it accrued any excess net revenues. FLAG's principals would pay income tax later, if and when they received any personal benefit from the foundation (e.g., consulting or management income). Given that FLAG was largely motivated to be involved as a way to enable SGSB to stay in operation, produce successful graduates, and help the economy in a region that FLAG's principals cared deeply about, John rather expected that any excess revenues would be left to accrue in the foundation as a basis for future growth, etc. For FLAG, the key was to make sure that the venture was sustainable—at the very least, cash flow positive in terms of excess net revenues.

John wondered about whether either program alternative could be sustainable in the absence of USAID funding. As mentioned above, sustainability implied the ability to cover costs on a risk- and timeadjusted basis. Sustainability also required the likelihood of generating sufficient reputational, internationalization, and social impact to satisfy new university partners without generating too many offsetting worries, costs, and management hassles. If the program were too small or too inefficient or had negative cross-over effects on the partners' other programs, it could not be sustainable. Additionally, John wondered whether any of the extra flexibilities that would come as the result of the end of past commitments might add substantial private (i.e., for FLAG) or public (i.e., for Bosnia and future students) economic value to the project. Finally, John wondered about the pure uncertainty in the project---how should that be considered? Working together with Bobby Gempesaw, John began to try to put together a plan. Central to their concerns was whether enough paying and qualified students could be recruited for sustainability.

Market for an Accredited Western MBA

Some market for a western accredited MBA certainly seemed to exist. Previously SGSB had conducted several studies regarding the size of the market. Estimates place the total number of registered and employed people between the ages of 25 and 40 living within the *primary target geographic area* around Sarajevo at approximately 75,000. Within this group they estimate that slightly more than 28,000 have university degrees and of those approximately 16,000 are proficient in English. Exhibit I illustrates.

EXHIBIT I

SGSB MBA Program
Primary Geographical Market

Total Employed	75,000
Total Employed with a University Degree	28,000
Total Employed with a University Degree & Proficient in English	16,000

Source: GfK market research December 2005

Until recently individuals interested in pursuing post-graduate education in business in Sarajevo were limited to attending the Faculty of Economics at the University of Sarajevo (SEB). Over the last several years several new programs have entered the market, including the SGSB program offered in partnership with UD and SEB, a joint program offered between SEB and the University of Turin, Italy (with an extra fee to receive the Turin degree), and a new program launched by the International University of Sarajevo (IUS), an entrepreneurial Turkish-based enterprise with religious roots and, importantly, the legal authority to offer independent degrees in Bosnia.

Regionally the choice was much greater with at least 10 MBA programs offered, differ greatly in price and accreditation. One of the programs, in Slovenia, had a long history and a level of international reputation. Exhibit II illustrates.

EXHIBIT II

Regional MBA Programs

University	Country	Months	Tuition	Accreditation
American University in Bulgaria	Bulgaria	16	$ 13,375	Bulgarian
CMC Graduate School of Business	Czech Republic	14	$ 34,615	AACSB/EQUIS
US Business School Praha	Czech Republic	10	$ 21,250	AACSB
Bled	Slovania	18	$ 33,125	AMBA
CEU Business School	Hungary	11	$ 13,125	MSA
Warsaw University School Of Management	Poland	24	$ 18,750	AACSB
ASEBUSS	Romania	24	$ 21,250	Ministry of Education and Research
American Graduate School of Busines	Switzerland		$ 28,125	IACBE
IGBS Zagreb	Croatia	18	$ 20,625	Croatian Ministry of Science and Technology

Source: school websites

References are available on request from the authors