

# THE ROLE OF HUMAN CAPITAL IN CENTRAL AND EAST EUROPEAN TRANSFORMATION: THE CASE OF BULGARIA

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**ABSTRACT:** The role of human capital was critical for the success of the systemic transformation that took place in Central and Eastern Europe (CEE) during the last decades. The case presents an overview of the theoretical foundation and a vast practical experience with building human and institutional capital in Bulgaria. It describes the process of designing institutions for sustainable development (SD) in CEEC, particularly in Bulgaria, and the results of these efforts in moving from the crisis situation to a sustainable path of development. The Bulgarian case study illustrates the challenges, successes and failures of building human capital and institutional capacity for SD. The final part presents the contemporary challenges facing Bulgaria and the rest of CEE to move to innovation-based development and this way build solid competitive position and secure sustainability. The policy recommendations to meet the challenges indicate a significant role for academia to build a new type of human and social capital, and move away from still prevailing in CEE teacher-centred approach to student-centred approach.

**KEY WORDS:** human capital, transformation, institutions, social capital, sustainability, competitiveness, teaching approach

## 1. INTRODUCTION – THE SYSTEMIC CRISIS

Bulgaria, like the rest of Central and East European countries (CEEC) inherited from the previous system a multidimensional crisis, with economic, ecological, social and political components. The system based on centrally planned economy and communist party monopoly reached its capacity to meet internal and external needs and challenges. In the late 80's, national economies of CEEC were in stagnation or decline and only statistical manipulations hid those facts (Brzezinski, 1989, Rosati and Mizsei, 1989). All of them experienced the "economy of shortage," which was the classical feature of centrally planned economies (Kornai, 1980). The United Nations Development Programme (UNDP) commissioned a regional report Capacities and Deficiencies for Implementing Sustainable Development in Central and Eastern Europe (UNDP, 1992) for the Earth Summit in Rio de Janeiro. The report stated that the whole region suffered from serious environmental pollution and eco-system degradation leading to severe economic, social and ecological losses (Bochniarz, 1990). The research of the Centre for Nations in Transition (CNT) at the University of Minnesota showed that air pollution in CEEC was alarmingly high, for instance \$1,000 of GNP production yielded air particulates approximately 60 times higher than in Western Europe. In addition, emissions of SO<sub>2</sub> and NO<sub>x</sub> in CEE were 30 and 18 times higher respectively than in the European Communities. The quality of surface and groundwater also deteriorated from the 1960s to the end of the 1980s in most CEEC (op. cit).

The declining quality of the environment threatened not only the basic ecosystem but also contributed to growing mortality and morbidity rates in the most polluted areas (Bobak et al, 1995). As the result, life expectancy had also declined in the whole region (Bochniarz, 1990; DaBerdeleben, 1991). Pollution and environmental degradation created severe threats to both human health and economic well-being. The situation in the late 1980s led to social apathy and unrest demonstrated, among others, by the Solidarity movement (Solidarnosc) in Poland in 1980, and Ecoglasnost in Bulgaria.

## 2. RESPONSE TO THE CRISIS - SYSTEMIC TRANSFORMATION

The response to the multidimensional structural crisis included launching a systemic transformation of the totalitarian political system, dismantling centrally planned economy, and introducing new environmental and social institutions and policies since spring 1989 in CEEC. Poland was the first country in Central and Eastern Europe (CEE) to start roundtable negotiations leading to partially free election (33% of seats) to the Parliament (Sejm) and 100% free to Senate on June 4, 1989. The CEE "domino" started falling with Hungary being the next, moving to East Germany, Czechoslovakia, Bulgaria and reaching Romania at the end of that year. The leading and the most outspoken opposition force in Bulgaria was Ecoglasnost, which started its activities in 1987 and soon became a nation-wide organization. They were quite successful in the 1st election in 1990, staffing many top governmental positions and influencing designing policy process and pushing the environmental agenda at the initial stage. For instance, the first democratically elected President of Bulgaria Dr. Zhelyu Zhelev, who was associated with the movement, delivered one of the "greenest" addresses at the Earth Summit in 1992. Unfortunately, Ecoglasnost was not able to sustain their strong political position in 1991 election and the environmental agenda started its decline in Bulgaria.

Fortunately, there were many other forces interested in keeping the environmental issues at the top of the political agenda. The international conference "Environment for Europe" gathered 34 environmental ministers from Europe, United States, Brazil and Japan (Dobris Conference, 1991) and led to a series of such conferences every 2-3 years, with larger number of participants and some interesting policy documents, such as Environmental Action Programme (EAP) for CEE produced by the 2nd Conference in Luzern 1993. In addition to those multilateral initiatives, there were some other programs supported by major donor countries and private foundations. One of those was a series of projects initiated by CNT in 1987 on "Economic Mechanisms for Environmental Protection in Market and Planned Economies," which produced policy recommendations for the Polish Ministry of Environment in

September 1989 and served as a renowned launching pad for the multi-country project "Building Institutions for the Global Environmental Challenge". The latter produced, in collaboration with CEE partners, four comprehensive "blueprints" for institutions and policies focusing on sustainable development for Poland (1990), Czechoslovakia (1991), Hungary and Bulgaria (1992). The Bulgarian blueprint contained 83 recommendations for reaching sustainable development and was distributed among members of parliament, government officials, regional and local governments, and NGO representatives all over the country (Bochniarz *et al*, 1994).

This rather modest action research project attracted many prominent scholars and civic leaders on the American side, such as Professors Richard Bolan (institutions), Leonid Hurwicz (Nobel Award in Economics 2007), Vern Ruttan (economics & institutions) and Edward G. Schuh (economics & policy); Doctors Tom Fiutak (conflict management), Marie Livingston (environmental economics); and civic leaders Jonathan Lash (World Resource Institute, law) and Richard Liroff (World Wildlife Fund, law). On the Bulgarian side, the speakers represented academic, public, civic and future business leaders such as for instance: Dr. Siemion Bozhanov (adviser to the President of Bulgaria & ambassador), Dr. Venko Beshkov (Deputy Minister of the Environment), Dr. Kristalina Georgieva (World Bank leader & currently EU Commissioner), Anton Antonov and AnnaPetkova (Ecoglasnost & media), and Hristo Mihailovski (Deputy Minister of Economy, currently major Bulgaria auditing & rating firm) and Evgueni Popov (major international pension fund). In addition to several academic and civic leaders from CEE, this international team prepared a comprehensive policy document that inspired many institutional and policy actions taken by Bulgarian government and communities, e.g. an independent energy efficiency and conservation think-tank in 1993 (Bochniarz *et al*, 1994).

Unfortunately, the process of implementation of the blueprint for sustainable development in Bulgaria did not go as fast as in other CEE countries such as Poland and Czechoslovakia (Mandova, 2007). One of the major reasons for slow implementation was a lack appropriate human capital equipped with the knowledge and skills to carry out challenging institutional and policy reforms. This deficiency was already highlighted in the UNDP CEE Regional Report (1992) stating that while the technical, scientific and mathematical skills were relatively high in the region, the social sciences, particularly environmental economics, institutional design, and management were very weak at the beginning of transformation, particularly in Bulgaria, Romania and Albania. The Report also indicated that this deficiency of human capital was due to structural problems in the CEE educational system. One of the key problems was the misallocation of priorities in the education process - too many resources allocated to the transfer of knowledge and too little to the development of appropriate interactive skills and attitudes of participants. The graduates were "loaded" with facts and information but they did not develop the appropriate skills and attitudes to apply knowledge in a collaborative process. Furthermore, the emphasis on basic natural and technical sciences discriminated against the social sciences and kept them isolated from the mainstream of Western science. The report also identified the severe lack of market-economy, managerial, and environmental knowledge in public sector decision-makers. Another significant barrier to sustainable development identified by the UNDP Report was a serious institutional gap between the

requirements of modern market economies, civil society, and sustainable development and existing institutions in nations in transition.

In order to address those issues, many foreign assistance programs were launched to help CEE to implement ambitious transformation processes and move those countries on the path of sustainable development. Two of them – the Environmental Training Project (ETP) for Central and Eastern Europe (1992-2001) and Management Training and Economic Education (MTEE-1991-2000) - had these authors involved in building human capital in CEE. The learning from these projects will serve as the basis for further analysis and conclusions.

### **3. CHALLENGES OF IMPLEMENTING THE TRANSFORMATION PROCESSES**

At the beginning of the transition, the strategic goal of the greatest leaders of the Central European transformation, such as Vaclav Havel and Lech Walesa, was to restore democratic political systems and to introduce modern market economies. The complexity of institutional and policy reforms necessary to build sound market economies after 50 years of distortions caused by the communist system and WWII was unknown to the political leaders and top economic experts (Kornai, 1990). There was neither theory nor practical experience on how to conduct such a radical transformation. It was a process of learning-by-doing. The foreign experiences from mature market economies were not applicable to CEEC. Although foreign experts were available to assist those countries in designing and implementing reforms, an urgent need to build endogenous human capital became apparent. It was a great challenge for CEE academic institutions to produce the human capital necessary to meet the needs of a democratic society with a market economy. The emerging system was based on completely different principles; the existing knowledge, skills, and attitudes instilled by the previous educational system, as well as the practice of a centrally planned economy were obsolete and useless to large extent.

### **4. THE CRITICAL FACTOR - HUMAN CAPITAL**

Human capital, like all forms of capital, requires continuing re-investment in its renewal, due to the depreciation and obsolescence of knowledge and skills caused by rapid technological progress, globalization, and new scientific discoveries (Becker, 1995; Bochniarz & Bolan, 2004). The systemic changes in CEEC forced their governments and societies to shift their investment priorities in the educational sector to respond to this challenge. Ironically, the impetus for this shift in priorities came from bottom up – business and families - rather than their governments. The families and businesses started to bear a significant portion of the burden of financing modern education. This financing occurred mainly at private colleges and business schools, and often took the form of tuition-based continuing education, particularly in executive education in business and management. Business and government's co-financing of higher education resulted in significant increases of enrolment at universities throughout CEEC. One of the leaders financing higher education in CEE was Poland (Pawlowski, 2004). Their statistics indicate that business and management education student enrolment has increased more than 10 times over the first 16 years of transformation, thereby making this group the largest field of education in Poland with over 550,000 (2004/5) students, while the overall number of students has increased only 5 times reaching the 2 million level (2004/5). The most dynamic

growth occurred in executive business and management programs (part-time and weekend students), represented by the Master of Business Administration (MBA) programs. This group increased about 20 times during that period. The unusually rapid increase in business education was driven by the desire of actual and potential managers to renew or learn the knowledge and skills necessary to be able to succeed in a dynamically developing economy. The result of the 15 years of continuing investments in human capital building significantly contributed to the substantial economic performance of the CEEC that became new members of the European Union (EU). That result indicates that such enormous investments in human capital were necessary to make the new institutions perform effectively and they paid off (Archibald et al., 2005, 2009).

The case of the Centre for Nations in Transition (CNT) from University of Minnesota, which became an international leader in designing and delivery educational projects with over 44,000 participants in CEEC (including 14,000 Ukrainians and over 2,500 Bulgarians) offered interesting lessons to other transforming countries and to the world. A particularly important role was played by a core of about 2000 CEE faculty members, who participated several times in workshops offered through CNT projects and who, over the last 10 years, trained many hundreds of thousands of people in seven CEEC. The CNT-initiated graduate and post-diploma (PDS) programs produced over 3,000 MBA, MPA, MABM, and PDS graduates. CNT facilitated the development over 500 new courses at collaborative institutions and over 100 joint management and economic publications. An evaluation conducted few years ago found that eight of the nine masters programs and 12 of the initial 15 PDS programs became sustainable and were still delivered either in their original form or in a transformed mode, adjusted to the changed conditions (Bochniarz, 2007). The informal network of over 3,500 companies and institutions was functioning in partnerships with academia, and with the core cadre over 200 professors able to teach MBA, MPA, MABM and PDS courses. CNT succeeded with facilitation of the accreditation of two of the Masters programs, including the Association to Advance Collegiate School of Business (AACSB) accreditation for Warsaw Executive MBA (WEMBA), and secured top positions in the country rankings.

## **5. THE SIGNIFICANCE OF PRACTICAL SKILLS**

Equally important to the new curricula in academic programs were the methods of delivery, with strong emphasis on practical skills, particularly soft skills, and collaborative attitude building. It was new for CNT CEE partners, who used to focus on knowledge transfer first. This interactive and team-based delivery was also implemented in short executive workshops, which produced many practical results. One of the first such events happened in Bulgaria at the ETP workshop on River Basin Management, organized together with the Ministry of the Environment in September 1993. The workshop had 31 participants – representatives of companies, NGOs, municipalities, regional and national government institutions. At the end of the workshop, the participants, who received the Bulgarian blueprint and were also inspired by successful examples from abroad, recommended that a pilot river basin council for the Yantra River be set up. On January 20, 1994 an Agreement for coordinating the activities for establishing and assisting the Yantra River Basin Council (YRBC) was signed between ETP, the Ministry of Environment, the Lovech District Governor and the National Water Council. In the following years after the establishment of the YRBC, ETP,

through the ETP Foundation (after its court registration in 1995), organized training activities, meetings, and public hearings to increase the visibility and efficiency of the YRBC.

The pilot YRBC was the first river basin council established in Bulgaria with the purpose to introduce a new regional approach to water management in the process of decentralization, restructuring of water companies, establishment of market economy and creation of new, democratic governance of the Bulgarian society. The positive experience of the YRBC gained national importance and contributed to the adoption of the National Strategy for Water Management in Bulgaria (1999), and the new Water Law (July 1999). The YRBC serves as a model for defining the functions of the basin councils in Bulgaria, their rights and obligations, statute, structure and their relationship with the national government institutions.

There were many other examples of practical workshops results: designing and implementing new regulations, such as the Law on Limiting the Harmful Effect of Wastes on the Environment (September 30, 1997); capacity building for introducing new institutions and implementing new policies, e.g. Eco-Management and Audit Scheme for Municipalities as a Tool for Local Agenda 21; and an Initiative for the Aarhus Conference – implemented by Bulgarian ETP Foundation with other ETP originated think-tanks in CEE from 1998.

In the final evaluation of the implementation process of the Bulgarian blueprint after 14 years (April 2006) the author stated that out of 83 recommendations, 60 were fully completed (72%), 19 partially completed (23%), and only 4 not completed (5%) (Mandova, 2007). She also emphasized that a slow implementation process at the beginning has been changed due to two major factors – significant investment in human capital and signing the pre-accession agreement with EU.

## **6. LESSONS LEARNED FROM BUILDING HUMAN CAPITAL**

All of these impacts were possible due to many factors, including the CNT designing process that was based on such elements as a good understanding of the local context and cross-cultural differences, followed by respecting local traditions and values. CNT always aimed toward top world-quality programs by using the University of Minnesota experience and inviting to the project consortia of top American and CEE universities. Another important element was partnering with major stakeholders in order to meet their expectations and build mutual trust. Honest partnering was the most critical element in this process, requiring time and patience in developing a shared and inspiring vision. Difficult but necessary was also encouraging and facilitating institutionalization and accreditation of the graduate and/or PDS programs. The CNT CEE partners often did not understand the significance of either institutionalization (e.g. granting a recognized degree or PDS diploma) or accreditation of the joint program (e.g. MBA) at the beginning of projects, but they quickly learned and became champions in performing these processes.

Another important lesson learned in CEE is modesty in evaluating own contributions, encouraging and recognizing local partners' matching contributions, and honesty in evaluating mutual performance. These were critical elements in establishing mutual trust – social capital, identifying real commitments to joint projects, addressing deficiencies, and correcting real and avoiding potential mistakes in the implementation process. Finally, presenting transparency in financial matters and fair allocation of fund – CNT invested

between 40-50% of project funds directly into building local capacities, contrary to consulting firms, which, if they invested any resources did not exceed 10-20%. CNT helped develop an attitude of pride in co-ownership with local partners, which was critical for local sustainability.

## **7. MACROECONOMIC IMPACT OF THE NEW HUMAN CAPITAL**

At the macroeconomic scale, the impact of those graduates with new knowledge and skills was significant. According to the theory of increasing returns of investment in specialized human capital developed by three Nobel Prize winners – [Lucas,1989; Schultz, 1993; Becker, 1995] – those 10 CEEC, which joined EU and invested a lot in human capital should experience faster than those without such investment. The data from 1994 until 2007 indicates that they were growing at average 4% annually while the 15 old EU countries experienced about 2% annual growth. Then the financial crises and follow up economic recession verified their sustainability, as well as ability to initiate appropriate policies. The 2008 was still good for the most of 10 CEEC, with average 4.5% annual growth of GDP comparing with 0.6% for EU 15. Three Baltic states started to experience negative growth but the hardest hit came in 2009, when the all EU 27 declined by 4.2% while the 10 CEE negative growth was about half of that – 2.4%, but for the Baltics was the most disastrous year with about 18% decline. Contrary to many Western EU member states, most of the 10 CEE took quick steps to adjust policies often with painful measures. Thanks to the effective policy responses by 2011, 10 CEEC experienced 4.2% annual growth – almost 3 times faster than for the rest of EU. The CEEC also increased life expectancy by 3-5 years since transformation, reduced by half infant mortality and cut significantly all major types of pollutions, particularly, SO<sub>2</sub> (70%), NO<sub>x</sub> 40-50%, particulate matters by 70% (Archibald et al., 2009). This is an important lesson that often harsh transforming processes and significant investment in human capital pays back.

## **8. LOW COMPETITIVENESS – THE NEW CHALLENGE OF SUSTAINABILITY**

Bulgaria and other CEEC made significant progress and are moving toward a sustainable path of development. The question is; do faster economic growth and significant investment in human capital secure sustainability in the coming decades of the 21st Century? Unfortunately, the answer is No. Despite their significant achievements, CEEC are lagging behind the leading countries in competitive and innovation ranking. Bulgaria was ranked 74, being ahead only of Romania (77), while the other CEEC were ranked higher but not with impressive positions: Estonia 33, Czech Republic 38, Poland 41, Lithuania 44, Hungary 48, Slovenia 57, Latvia 64, and Slovakia 67 (World Economic Forum, 2011-2012). For the advanced economies, the major source of becoming competitive is innovation. The situation does not look too optimistic for Bulgaria and other CEEC according to the Global Innovation Index (2011) – the most innovative was Estonia (23), followed by Hungary (25), Czech Republic (27), Slovenia (30), Latvia (36), Slovakia (37), Lithuania (40), Bulgaria (42), Poland (43) and Romania (50).

These results are difficult to explain, taking into account the significant influx of new graduates during the last twenty years; it seems that it did not make CEEC more innovative and competitive. Unfortunately, there is not sufficient data to assess how many of those educated in economics, management, and law went to business and public sectors, and how their

education correlates with their ability to respond effectively to new challenges coming from competing economies. This is not only the challenge to business sector but to also to the public sector. The WEF 2011-12 Report indicates many barriers for making CEEC more competitive and innovation in public administration.

The two most competitive economies - Switzerland and Singapore - are not that highly ranked in human capital; however, the Nordic countries are also at the top of competitive economies but experience high ranking in human capital, high above CEEC (World Bank Knowledge Index, 2011). That could mean that to be innovative and competitive requires more than the highest levels of education. Equally important could be to have good information and communication technologies (ICT), economic incentives, or other conditions such as e.g. social capital.

## **9. HOW TO CONVERT THE NEW HUMAN CAPITAL INTO MORE INNOVATIVE MODE?**

The challenge is how to capitalize on those huge increases in graduate numbers over last 20 years to create more innovative and competitive economies in CEEC. A deeper analysis is needed regarding the quality of the graduates and their basic competencies, as well as their ability to respond to contemporary needs in business and public administration. Several factors could have reduced the positive impact of the quantitative increase in the number of graduates:

- The number of students enrolled in various programs exceeded the number of the most talented students able to meet the highest quality standards, which led to a declining level of the general performance.
- Despite high enrolments, CEE universities did not make sufficient investment in hiring new faculty members and developing their academic competences. The incentive structures did not always reward high performing academics. Universities did not invest enough in other educational capacities including buildings, information infrastructure, teaching materials, and others. The faculty/student ratio remained high or increased even more, making difficult to secure a high quality of education, particularly at the graduate level where applied research is key.
- Although many new colleges and universities, particularly private ones brought a lot of fresh energy, entrepreneurship and new academic capacities, most of them entered the education market without sufficiently prepared faculty, institutional experiences and accumulated tradition.
- The three-year undergraduate degree programs introduced as the result of the Bologna Process has significantly less demanding requirements than a traditional Anglo-Saxon four-year bachelor degree; it is arguable that they can produce equivalent competencies.
- The large number of students and the conservative character of many CEE universities prevented significant changes in curriculum design and delivery methods from a traditional teacher-centered approach to a student-centered one.

## 10. HOW TO CONVINCE UNIVERSITIES TO TEACH FOR SUSTAINABILITY?

The first four reasons contributing to the decline of the average quality standards are self-explanatory and do not require further analysis. The fifth reason is much more complex and concerns the fundamentals of the education process, such as philosophy of teaching, basics of curriculum design and delivery methods. The best way to explain this might be a comparison between American and European higher education. There is a significant difference between American and European universities in terms of curriculum design and delivery methods, particularly in determining the basic proportions between three basic elements of the educational process: knowledge, skills, and attitudes. In Europe, the dominant element of the process is still knowledge transfer, with less time allocated for practical skill-building and appropriate attitude development. Knowledge coming from theory rather than practical cases implies a teacher-centred approach, with a usually quite passive method of transfer. The graduate leaves the university equipped with a vast volume of knowledge, but often without sufficiently developed practical skills with which to apply it. These “soft” skills are particularly not appreciated in European academia, because they are not usually the subject of scientific publication – the base of academic promotion – and they are often time-consuming to learn for both teachers and students, creating serious disincentives. The impact of the application of soft skills in practice after graduation, as well as the results of the process of building them, are the most critical to developing appropriate attitudes – the fundamental condition for future collaboration on the job, in different communities and in cross-sectoral settings.

In North America, the right proportions of knowledge, skills, and attitudes in curriculum content and time allocation are viewed as critical in curriculum design. The basic philosophy behind the American teaching process is pragmatism. Investing in new knowledge without developing appropriate skills to implement it is a waste of resources. Developing one’s skills without the attitude to share and cooperate with other individuals or teams is also ineffective and inefficient in resolving complex and multidisciplinary contemporary problems. The American approach assumes an active student involvement in developing new knowledge as one’s discovery process leads to internalization as one’s own concept. The teacher serves as a facilitator or guide in the interactive exploration process rather than the source of new knowledge. The role of the teacher is to create a certain level of discomfort – the case study – that mobilizes students to use their critical thinking to find new ideas and solutions to problems. The student group/class is treated as a learning community where they can openly exchange ideas, challenge and learn from each other, and explore their different professional experiences and backgrounds.

The design of the education process assumes that students have instant access to the Internet, where they can explore any new knowledge in the field, and challenge the lecturer if she/he uses outdated concepts from old textbooks. The teachers should acknowledge the fact that the acceleration of discoveries and immediate access to information provided by the Internet potentially renders knowledge obsolete quickly, and they should require students to supplement textbook readings with new articles and/or reports from academic the Internet. Students are also encouraged, particularly in social science, to read articles from competing schools of thinking, e.g.

neoclassical vs. Keynesian explanations of economic crises, or environmental vs. ecological economics approaches to climate change. Reading and discussing practical cases instead of an abstract theory from a textbook helps students to understand behind the theoretical concept towards its potential application. In addition, guest lecturing by experienced practitioners connects relevant theoretical concepts with real life. Special project competitions within a university e.g. the Environmental Innovation Challenge for interdisciplinary undergraduate student teams or the Global Social Entrepreneurship Competition (GSEC) – both initiated by the University of Washington (UW) - teach students to work together, be innovative and compete. Semester-long team field projects and diploma projects are a requirement for a master’s degree, e.g. the Public Policy Clinics at many schools of public affairs and individual student projects. Both forms of applied research focus on resolving local or regional problems are the best examples of practical applications hard and soft skills in the real world. Completion of the diploma field project is usually followed by a public presentation to the major local/regional government or NGO stakeholders and often serves as a springboard for new jobs. In order to succeed with the project, students invest much time and effort in acquiring hard skills – mostly quantitative methods of statistical data processing and/or modelling. They also invest in getting familiar with soft skills – mostly qualitative - such as: communication (written, verbal, and informal), entrepreneurship, leadership, teamwork and problem solving to successfully complete their projects and secure their future jobs. Team projects and collective case-solving are the most popular forms of shaping collaborative attitudes, in addition to mentoring junior or less experienced students and challenging their peer presentations to practicing soft skills.

The best, and to some extent the most extreme examples of the American way of teaching are the 100-year-old Master of Business Administration (MBA) and the more recent Master in Public Administration (MPA) programs. These professional graduate programs are not recognized as graduate programs but rather as post-graduate studies in many European countries, and for this reason are treated as inferior by the conservative part of faculty. In the US and Canada, contrary to most European countries, these programs lead to building strong practical skills, critical thinking, and collaborative attitude, with students being in the centre of the educational process. These programs, considered part of a professional education shape both good cooperation and fair competition – ingredients necessary for building social capital. The common feature of the most innovative and thus competitive economies like Sweden, Denmark and Finland - is rich human and social capital – the critical component to building strong industrial clusters and network-based communities. This is the case of all Nordic economies, which successfully combined a high level of R&D with investment in education & ICT, while maintaining a high level of social capital and cluster-based development policies. Similar patterns are followed by Switzerland, Singapore and The Netherlands. This is also the case of the United States – the 5th most competitive economy (Schwab, 2011).

## 11. POLICY RECOMMENDATIONS

The CEE academic community should respond quickly to the emerging needs and problems of the public administration, as they did with MBA programs at the beginning of the 1990s (with significant assistance from US and Canadian universities). They should creatively apply the best experiences of the 1990s with appropriate MPA-like programs and

specialized training, which keep in mind the following principles:

1. Designing a balanced MPA program with the right proportions between knowledge, skills and attitude building
2. Teaching the public administration officers and staff the basics of innovation and competitiveness from globally-recognized programs such as MOC
3. Opening universities to practitioners to act as guest lectures
4. Encouraging collaborative efforts with faculty exchanges and joint MPA programs through universities from the top competitive economies
5. Including faculty achievements in developing innovation as criteria toward evaluating their performance and promotion
6. Motivating faculty to conduct applied research on the innovation and competitiveness of their own communities, cities and regions
7. Spearheading the public-private dialogue to improve innovation and competitiveness of their local and regional communities.

There are many other stakeholders who should be involved in this issue, but if the CEE Governments and academia take the lead in radically reforming public administration, it will transform into an opportunity for innovation-based development and sustaining competitiveness. It does not matter how absurd the current parliamentary debates are or how far out of touch many politicians are, if there is a strong professional administration. The most competitive economies, such as Switzerland, Singapore, and the Nordic countries, are excellent examples of how powerful a force public administration can be.

The chance for CEE to sustain relatively good economic performance over last 23 years is to convert existing barriers in public administration into opportunities to become an agent change and support for innovation-based economic development through implementation of already delayed necessary institutional and structural reforms.

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