

REPORT ON
CAUCASUS UNIVERSITY
TBILISI, GEORGIA
June 5-9, 2007

SALZBURG GLOBAL SEMINAR

VISITING ADVISORS PROGRAM



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Summary Report of the Visit to Caucasus University, Tbilisi, Georgia June 5-9, 2007

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Forward

The Salzburg Global Seminar's Visiting Advisors Program (VAP) offers assistance to higher education institutions (HEI) in the Russian Federation as well as in Central and Eastern Europe that seek to advance the process of institutional self-assessment and change. The VAP consists of consulting visits, at the request of the host institution, and expertise to provide strategic support and advice to their colleagues in developing new approaches to concerns expressed by the host institution. In so doing, the Salzburg Global Seminar hopes to promote a broader understanding of the challenges that HEI in the respective regions face in renewing their higher education systems; to share examples of good practice; to strengthen the reform impetus at the given HEI; and to encourage professional and institutional linkages.

1. Introduction

Caucasus University (CU) invited a team of Visiting Advisors from the Salzburg Global Seminar to provide an outside view and critical advice on the implementation of university strategies, academic structures and governance within the University. As background information on the present state of development of CU, the University management provided the VAP Team with a set of documents beforehand, comprising general information, university structure, information on the development of the main financial indicators, and a problem catalogue. The preparatory documents were a great help for the VAP Team and gave a short and concise overview of the situation of CU and the main challenges it is facing. The VAP Team was impressed by the carefully developed problem catalogue.

The specific program for the visit to CU was determined in advance, through discussions between university administration and Salzburg Global Seminar staff. Four sessions were planned, each of which was designed around a set of related topics:

1. University governance and overall management issues
2. Human resources issues, notably hiring, retaining and developing qualified faculty and staff
3. Financial aspects of the University, including expense management, the revenue model and raising growth capital
4. The academic program, including developing faculty, balancing research and teaching and dealing with transfer of student credits

During the four-day visit, these issues were discussed in an introductory session with the president, four working group sessions, and a closing session between the VAP Team and the CU senior management team. Throughout the visit, CU was represented by a selection of senior management members, deans, faculty members, directors and other high-level CU officials. The VAP Team greatly appreciated the open and constructive atmosphere that characterized discussions during the entire visit.

In addition to and complementary to the formal working sessions, the CU management arranged a very informative and enjoyable social and cultural program, including a tour of the historic city of Tbilisi and a day-long excursion to the eastern region of Georgia. Also, the social events provided ample opportunities for informal discussions and clarifications of detailed aspects of CU's present situation and future perspectives.

The VAP Team is grateful for the extraordinary hospitality of all of our hosts from CU, who made us feel most welcome. In particular, we want to convey our thanks to President Kahka Shengelia and Vice President for Academic Affairs George Simongulashvili for the careful design, excellent planning, and practical organization of the visit, as well as to Onise Alpenidze and his colleagues who served as logistical coordinators and guides throughout the entire visit.

2. The general situation of Caucasus University (CU)

To understand the challenges and character of Caucasus University, it is first important to place the University in the broader context of the Republic of Georgia, a country which has struggled over centuries to secure its independence and is now enjoying significant political and economic momentum.

Located on the eastern shore of the Black Sea, the Republic of Georgia is a country of five million people and a long, distinguished history dating back to the early fifth century A.D. Over that time, Georgia has experienced a constant struggle for independence from the three major powers that surround it – Russia to the north, Persia (Iran) to the southeast and Turkey to the southwest. Over the past couple of centuries, Russia has been the dominant presence, having incorporated Georgia into its empire in 1801, an action endorsed by Georgia largely as a preventative action taken in anticipation of invasions by Persia and Turkey.

Over the next century, Georgia became substantially assimilated into the Russian Empire, until the Russian Revolution of 1917 presented an opportunity to a group of Georgian patriots to establish a socialist but Menshevik-oriented independent Georgian state in 1918. Sadly, this ran afoul of the Bolshevik-dominated Russian

government, which invaded in 1922 and conquered Georgia. It was then made part of the Soviet Union, first as an element of a South-Caucasus republic and, as of 1936, its own Georgian Republic which persisted until the disintegration of the Soviet Union in 1991.

Among the many interesting aspects of the Soviet era was the significant role during this period played by a Georgia native named Josef Jughashvili. An ambitious member of the Bolshevik Party, he adopted a *nomme de guerre* borrowed from the Russian word for “steel” – Stalin – and figured prominently in the subjugation of his homeland by his adopted state.

Before the USSR fell, Georgia declared its independence for the second time in the 20th century and was immediately thrust into a variation of civil war, with various factions struggling for power, some backed by a Russia still intent on salvaging some influence in the south Caucasus region. In 1995, Georgians overwhelmingly elected as president the former Russian foreign minister Edward Sheverdnadze, a native of Georgia. Strongly aligned with Russia, he was re-elected in 2000. However, his administration proved to be ineffective and highly corrupt, characterized by significant favors to family members. As a result, domestic turmoil grew and finally came to a head in 2003, when in a non-violent uprising called the “Rose Revolution,” Sheverdnadze was forced to resign. He was replaced as president by the youthful and progressive Mikheil Saakashvili, who was elected by a landslide and continues as president to the present time.

The past several years have been characterized by two noteworthy dynamics. The first is the significant upsurge in the Georgian economy, which has grown around 10% per year over that time and is expected to continue strong performance. The second is the ongoing deterioration of relations with Russia, which has continued to desire greater influence over the Georgian government, and in an effort to achieve it has taken decisive action, including the banning of imports from Georgia and tightening of travel and visa restrictions between the two countries.

Tbilisi, the city in which Caucasus University is located, serves as the capital of the Republic of Georgia. Situated in the mountains of eastern Georgia, it is the largest city in Georgia and has been the dominant city of the region for nearly a thousand

years. It is the center not only of the government but intellectual and commercial life. Appropriately, it is also the site of the two largest universities in Georgia, Tbilisi State University and the Georgia Technical University.

Remarkably, these universities – along with a third, the Tbilisi State University of Economic Relations – anticipated the growing demand in newly-independent Georgia for people with strong, international-caliber business skills and recognized that no existing institution was equipped to provide them to the required standard. Consequently, in 1998 they partnered with an American university, Georgia State University (GSU) of Atlanta, to create a new school of business called Caucasus School of Business (CSB). It was a highly-innovative model, based on the American style of teaching, taught in English and using curriculum developed by CSB's American partner, GSU.

In addition to providing the principal curriculum, which CSB adjusted to the needs of Georgian students, GSU also played an active role in developing the CSB faculty and selected students through on-going programs. Each year, five members of the CSB faculty are sent to the GSU campus in Atlanta for a full-semester of intensive training and mentoring in various specialties. Further, each year a small number of students both at the BBA and MBA level are provided an opportunity to spend a semester in Atlanta for additional in-depth learning.

CSB hired a young American-educated native of Tbilisi named Kakha Shengelia as dean in 2000, when the school had fifty students, only twenty of whom were paying. The others had been recruited to pilot the program, as it was unique and had little initial credibility. In late 2004, after the change in government, the Georgia parliament adopted the innovative Georgian Law on Higher Education, which was intended to create greater accountability and also to reduce corruption in the educational system.

One consequence of the law was a decision by Tbilisi State and Georgia Technical University to change the status of Caucasus School of Business. They presented two options to university administration: either CSB could be fully-integrated into them as a regular school or it could be spun off and be made completely

independent. Eight top leaders of CSB decided to take the second course and created a limited liability corporation with themselves as shareholders.

Since then, CU has grown significantly and now has around 1,600 students. To expand upon their strong position in professional education, CU launched a law school in 2005 and is creating a school of journalism or media at the present time. Future plans foresee growing to about 3,000 students and adding two additional schools, one for public administration and one for information technology. Undergraduate courses and administrative offices are located on two floors in an old building that is part of the Georgia Technical University Campus. Graduate courses are taught in good-quality rented space just off the very fashionable main street of Tbilisi. In order to meet future needs and to consolidate all operations in a single site, CU acquired three years ago a large, century-old former monastery building overlooking central Tbilisi. Scheduled to be completed by the start of the 2009-2010 school year, it has become the main symbol for a more influential and prestigious CU.

3. The VAP Program

The visit of the Salzburg Global Seminar VAP was scheduled for a five-day period from June 5-9, 2007. The first four days were to be dedicated to the formal work of the delegation, with a final day dedicated to touring areas of interest around Tbilisi. As noted above, the formal program for the visit consisted of four working group sessions designed around topics of paramount interest to the University: first, university governance and overall management issues; second, human resources issues; third, financial aspects of the University; and fourth, selected issues relating to the academic program. Each session had two designated co-chairs, one from the University and one from the VAP Team. To provide general context, the working group sessions were preceded by a meeting between the VAP Team and President Shengelia.

Pre-session: Perspectives of the President. Prior to commencing the formal group discussion program, members of the delegation had a candid and informative meeting with the President of Caucasus University, Dr. Shengelia. Our session

focused on two primary topics. First, President Shengelia provided a more detailed history of the evolution of Caucasus University, including the transition of the entity from public to private ownership. Second, he outlined his vision and priorities moving forward, placing primary importance on three: completing the new building facility, strengthening the faculty, and coping with increased government regulation. We discussed each at length, with particular emphasis on the facility. Acquired three years ago at a cost of \$800,000, it is the crown jewel of the University moving forward and already is estimated to have a market value several times greater than the purchase price. However, the building is in a state of extreme disrepair and will require substantial funds to renovate and equip. Regarding faculty, the main challenge is finding and developing qualified young teachers who have the skills to be strong researchers but are not tainted by vestiges of the Soviet system. The regulatory issue has many dimensions but primarily involves federal rules that limit the flexibility of universities to select and assess students, as well as to determine class size and pricing.

Session 1: Governance and Overall Management. The co-chairs of this session were the Vice President for Academic Affairs, Dr. George Simongulashvili, and Paul Carttar. Also in attendance from the University were Dr. Giorgi Turkia, Member of the Board of Founders; Dr. Guram Lezhava, Vice President for Material Resources; Dr. Nugzar Skhirtladze, Head of Quality Assurance; Dr. Zaza Maruashvili, Dean of the Caucasus School of Law; Mr. David Iremadze, Head of Graduate Studies, Caucasus School of Business; Dr. Tamar Vepkhvadze, Manager of Caucasus School of Media; and Mr. Onise Alpenidze, International Programs Manager.

The substance of the session focused on a wide-ranging discussion of the major challenges faced by the University across all areas of its functions. Highlighted in particular were the following issues: the transition to an increasingly research-oriented university, especially how to manage the faculty-related aspects of that transition; coping with challenges associated with launching the new media school; ensuring necessary levels of quality in the educational product, particularly those aspects that are antithetical to the Soviet model, such as creativity and critical thinking; improving the material resources and facilities for the University; coping with government regulation, notably the setting of academic standards that are lower

than those at CU and which, therefore, threaten to undermine the academic integrity of CU's product; and, finally, how best to utilize advisory boards to advance the interests of the schools.

Session 2: Human Resources. The co-chairs of this session were Ms. Lili Bibilashvili, head of the Career Development Center at the University and Paul Carttar of the VAP Team. Also in attendance was Ms. Natia Anesashvili, Human Resources Assistant.

The main focus of this session was a comprehensive personnel job classification and compensation matrix that CU is intending to implement within the next few months. As they have been experiencing rapid staff growth, they perceive heightened need to rationalize their staff structure and establish clear categories of positions based on relative responsibility, so that pay levels and promotional policies can be administered fairly and consistently. Further, because the economy of Georgia is so robust and the job market has become highly competitive, CU wants to ensure that it is able to retain its most valuable and productive employees.

Additional discussion focused on CU's efforts to develop a robust program fostering closer relations with CU's growing number of successful alumni. This is a particularly important initiative considering the significant needs the University expects to have for financial resources in the future, both to support physical development of the CU campus and expanded academic programs.

Session 3: Finance. The co-chair of this session representing the University was again Dr. Simongulashvili, the Vice President for Academic Affairs, along with John Vatai of the VAP Team. Dr. Simongulashvili was accompanied by Ms. Nana Samkharadze, Vice President of Finance. The main topics discussed in this session can be separated into two categories: those pertaining to the operating revenue model and those pertaining to the acquisition of growth capital.

At the present time, the operating model overall is considered by university officials to be satisfactory, as routine operating expenses are relatively low—especially for non-salary costs like facilities – and revenues, virtually all of which come from tuition, are sufficient to cover expenses and provide near-term working capital. There are two major sources of potential strain on the model moving forward. The first is faculty

salary costs, which are currently relatively low on a per-course basis. Right now faculty members tend to be relatively young, and a significant portion teach part-time. In addition, full-time faculty members dedicate the vast majority of their time to teaching classes. However, moving forward, the University wants to take several actions to strengthen the faculty that in combination will place significant upward pressure on salary costs per course: increase the percentage of full-time salary, hire some faculty with greater seniority and increase the amount of research undertaken by each faculty member. While CU does expect to increase its funding for research, these changes are likely to increase pressure for further tuition increases.

The second major topic had to do with securing growth capital. The critical infrastructure priority for CU is renovation and full equipping of the new university building currently under reconstruction. Estimates for the total cost of this project range from around \$3 million to \$5 million for renovation and an additional \$1-1.5 million for equipment. Whatever the true figure is, raising adequate capital will prove to be a critical challenge for the University. At present, administration believes it has secured commitments for slightly over \$1 million through the sale of 40 one-time sponsorships to large corporations at \$30,000 each. Other ideas in play include grants, private contributions and loans. As a for-profit legal entity, university administration is aware that it will not be eligible for charitable grants and donations from many foundations and individuals directly, so it has established its own foundation to receive such gifts.

Session 4. Academics. The session was co-chaired by Dr. Mugan of the VAP Team and Dr. Simongulashvili. Also attending, as in the initial session, were several members of the senior management team, including Dr. Giorgi Turkia, Member of the Board of Founders; Dr. Nugzar Skhirtladze, Head of Quality Assurance; Dr. Zaza Maruashvili, Dean of Caucasus School of Law; Dr. Tamar Vepkhvadze, Manager Of Caucasus School of Media; Mr. Akaki Kheladze, Head of Management Department; Mr. David Iremadze, Head of Graduate Studies; Mr. Onise Alpenidze, International Programs Manager; and Ms. Teresa Ball, External Affairs Director.

This session focused on three primary topics. First, we reviewed the basic curriculum and academic program for the three existing schools, at both the graduate and undergraduate levels. Second, we discussed the myriad faculty-related challenges

they are facing, given the unique non-Soviet profile they are seeking in the context of a very robust labor market. Finally, we discussed their concerns around government regulation and how this might be addressed through increased involvement in the Europe-wide “Bologna Process.” This final topic was particularly relevant to the Visiting Advisors Program, as it arose largely out of the Salzburg Global Seminar’s appreciation of the importance of the Bologna Process and its implications for universities in the former Soviet Union.

4. Findings and Recommendations

Upon completion of the various sessions, members of the delegation formulated preliminary findings and recommendations. These were then presented to the senior management team in a final session on the fourth day of the visit. In attendance were Dr. Shengelia, Dr. Turkia, Dr. Simongulashvili, Dr. Skhirtladze, Dr. Lezhava, and Ms. Samkharadze.

In general, the delegation was highly-impressed with what CU has become in just nine years, particularly considering the inferior facilities and infrastructure and the shortage of capital. The reputation of the University has steadily grown, and with it, enrollment and student quality. Further, according to university officials, placement rates of both graduates and current students approach 100%, with the majority assuming positions prior to graduation. Indeed, upper level classes in the BBA program are now taught exclusively in the evening in order to accommodate the large number of working students. The University has strong leadership, which has defined a clear, compelling vision, fashioned a strategy that strongly reinforces the vision, and assembled a first-class team to make it all happen. Of particular note to members of the VAP Team was the extraordinary degree of understanding that each member of the management team has with the overall vision, their alignment with the vision and their ability to articulate it – most unusual in a higher education setting.

The VAP Team highlighted three broad issue areas it judged to be of primary significance for administration moving forward: securing growth capital; leveraging international connections and affiliations; and faculty management, especially in the context of trying to become more of a research institution. The preliminary

perspectives on each topic presented in the wrap-up session are elaborated upon below.

Before delving into the explanation of key findings, however, it is important to emphasize the critical strategic choice that CU management has made that makes these three issues so critical. Throughout its brief but extraordinary history, CU has been positioned as a “lean and mean” teaching institution, where talented, highly-motivated students could expect to receive a sound, modern, international-caliber classroom education at relatively low cost. The key to this combination of high-quality and low-cost has largely been the fact that faculty members – many of them part-timers who are also skilled practitioners – were fully dedicated to instruction of students.

For a variety of reasons, university management has decided to commit to move from being an institution exclusively focused on teaching to becoming a more comprehensive institution supporting the conventional three-part higher education mission of teaching, research and services. While the VAP Team has tremendous respect for the leaders of CU and fully understand the forces attracting management toward this option, we must express our concerns about the potential implications for CU of making this change, which will dramatically escalate the already formidable financial pressures on the University in two ways. First, it will significantly increase annual operating costs by reducing the teaching load of full-time faculty members and reallocating time of the most expensive, well-qualified professors toward research. Even if the research time is fully covered by research contracts and grants – which is certainly not assured – this will create increased strain on the University’s sole source of operating revenue, the already competitively high tuition rate. Second, because research increases the need for facility space and equipment, it will also drive increases in the capital required to fully fund the university physical plant.

Consequently, we urge CU management to re-examine that strategic decision to assure itself that the benefits of becoming a research university in addition to a teaching one will decisively outweigh the costs and risks. That concern having been acknowledged, we will proceed to discuss our observations and recommendations.

A. Growth Capital

As noted above, CU has no more pressing challenge than to raise sufficient money to complete the new facility and otherwise put the university on sound footing for the future. While management is confident that tuition, CU's dominant source of operating revenues, will continue to provide adequate cash to meet basic working capital needs, it will almost certainly not be adequate to generate cash reserves of the magnitude required to support longer-term growth, with the result that funds will need to be raised explicitly for that purpose.

In the opinion of the VAP Team, the university faces a major complication in this regard in its legal status as a for-profit entity, as the traditional sources of growth capital for universities are public funds and private philanthropic donations, neither of which is likely to be available in significant quantity where potential donors might be concerned about enriching private business owners. Though it is true that private business status opens up other sources of capital not available to nonprofits, most notably greater access to debt and also the sale of additional equity, the University may be constrained from exploiting these sources due to either a desire to maintain current ownership shares, that is, to avoid "dilution," or a financial model that because of its reliance on tuition is unlikely to provide financial returns that are attractive to investors or sufficient to cover interest expenses.

Based on discussions held with the university leadership, it is clear that they believe there are ways to overcome this, and they may very well be correct. In particular, CU has formed a nonprofit foundation that would be able to receive philanthropic funds from foundations and other donors. While that is certainly true, the challenge for CU will be actually withdrawing such funds from the nonprofit entity and deploying them on behalf of the for-profit one. The fund would surely be able to provide scholarship assistance to some students, which could give CU some additional tuition upside, but direct funding of critical capital needs is likely to be problematic. Other possible sources of growth capital should certainly be explored. For example, grateful alumni, who are to be targeted by the newly-enhanced alumni office, may not be troubled by contributing to a for-profit, and it is always possible that some wealthy individuals who are committed to the future of CU or the Georgian Republic might be willing to invest with little expectation of near-term return.

Considering the low probability of these generating sufficient funds, however, we urge CU's leaders to at least consider another course: the re-evaluation of the university's legal structure as a for-profit entity. In the opinion of John Vafai, an accomplished international lawyer, CU's management could meet these challenges by changing its legal structure from that of a profit-seeking business organization to a bono fide non-profit academic institution. The legitimate financial interests of the founding members could be preserved under a new legal regime. In the short run the CU could use an ad hoc program, under which professors from the U.S. will teach on a short-base, intensive course, without any salary payment.

Below, we will first discuss the shortcomings associated with the present corporate structure of the CU with an illustration of the cost benefit figures in the MBA program. We will then respectfully suggest a possible means of creating marginal financial cushion by reducing the cost of faculty through the utilization of *ad hoc* professors from the USA to teach in the fields of law and business without any compensation.

Caucasus University (CU) is established under the relevant Georgian laws in form of a corporation. As such, the founders of the CU are the owners and trustees of the institution as a corporate entity. The current corporate format of CU offers advantages to its founding members, such as distribution of income and limitation of the liabilities. In the long run, however, such structure creates major impediments to its growth and prevents the University from acquiring outside funds, particularly under the present corporate structure as adopted by the CU. As a result, American corporations, foundations and individuals will not be allowed, nor will they have any tax incentive, to make charitable contributions.

At present, the CU's costs are primarily met by the student tuition. The limited scope of the student tuition does not allow any substantial academic improvement of the CU in terms of its educational quality and physical development. In particular because of its limited scope, the tuition-based policy will limit employment of the qualified faculty from abroad, expansion of space, technical development, library and undertaking exchange programs.

Under American case law, corporations within certain conditions are allowed to meet their social responsibilities. The Supreme Court has stated that, although the main

business of a corporation is to be confined to maximizing its profit, it may also engage in transactions which may be auxiliary or incidental to its main business – namely charitable contributions. However, the making of charitable contributions to profit-making corporations is *ultra vires* and therefore impermissible.

To their great credit, the founding members of the CU have reportedly adopted a policy to forego for a few years the annual income derived from their partnership interest in the University and revert all such income towards operating activities and expansion of the University. As commendable as such a policy is, it clearly demonstrates the fragility of the current CU financial model. Clearly, it would be critical to protect the financial interests of the founders who have taken the risk to build this extraordinary institution, and there may be ways to protect the future distribution of profit even in the situation of a change in legal structure. For example, it might be possible to allocate appropriate salaries for the founding members starting from a predetermined date in the future (e.g., 5 years or 10 years from the present date in order to give a breathing room for the intuitional expansion).

It is important to note that as a country, Georgia has a good reputation in the United States both at the governmental and corporate levels. Georgia's rich and ancient history, its democratic government (a rarity among the former Soviet republics), its open society, and its open policy for tourism have all contributed to an environment of goodwill. Such environment transcends the politics. Further, the CU's young management and faculty members (some with substantial educational background in North America) have all added to the atmosphere of the goodwill and benevolence. CU could take advantage of such atmosphere in form of seeking financial contributions from U.S. corporations as well as Georgian expatriates. This is not a farfetched imagination. Such contributions have clear financial advantages to donor corporations. Corporate contributions to educational institutions may not be an established norm in Georgia. In the United States, however, it is a well-established tradition that corporations frequently undertake charity contributions to universities and enjoy the tax benefits from such practice.

In terms of approaching Georgia's existing corporations, there are several relatively large corporations operating in Georgia including, but not limited, Bank of Georgia, BP, TBC (bank), Center Point (construction), Wissol (Swedish Oil Co.), and Aversi.

These companies could be used as a possible source for a fund-raising campaign. Funds obtained from such campaign could be used for increasing faculty salary, development of library, information technology equipment and research work.

Regarding faculty salaries specifically, we would like to offer an idea that might provide CU with some additional financial cushion while also enhancing the quality of its teaching product. As noted elsewhere in this report, it is clear that CU currently faces serious issues concerning attracting qualified teaching faculty for its MBA and Law programs. Only a few faculty members—if at all—make over \$2,000 a month. With a few exceptions the faculty members are paid based on the number of hours they teach (usually \$20 an hour). Since 2004, as a result of meager wages allocated to teaching, Caucasus University has lost a few faculty members to other universities or commercial institutions including Georgian-American University, PriceWaterhouse, and an institution in Ukraine.

It seems that even under the present financial constraints CU might be able to put greater emphasis in paying appropriate salaries to its faculty members. The idea is to use U.S. faculty members with no monetary compensation. As an institution CU needs broader interaction with the North American professional institutions. To overcome the financial difficulties on hiring foreign faculty members, CU could use U.S. faculty on *ad hoc* basis. This program would be voluntary on part of the U.S. professionals with no obligation on part of the CU to pay salaries. The U.S. Agency for International Development or private sector companies could contribute to cover transportation costs. A similar program has been put into effect by the Chinese European International Business School (CEIBS). The foreign visiting faculty members will stay 15-20 days in Tbilisi and will teach courses on intensive schedule. To maintain course continuity, two visitors should be able to teach the same course consecutively. As of this writing, four individuals from the United States (in the fields of law and business) have agreed to participate in the proposed *ad hoc* teaching program.

In summary, to address the significant need for additional growth and working capital, the VAP Team recommends that CU do the following in addition to its current efforts:

1. Fully exploit available opportunities to leverage the new facility for additional revenue generation, by supplementing sponsorships with additional tools such as contract provision of services to students for items like food, supplies and books.
2. Aggressively develop funding relationships with university alumni, including individuals who have enjoyed the benefits of association with CU but may not have formally graduated.
3. Consider changing the legal structure of the University from for-profit to not-for-profit.
4. If the legal structure remains unchanged, explore the use of innovative mechanisms for enabling quasi-philanthropic contributions of capital that could have the legal form of private equity investments but would function as charitable donations, with significant restrictions for their treatment in the event the entity would be sold.
5. Consider the sale of additional equity in the LLC, perhaps to individuals who would be motivated primarily by a commitment to the mission of CU rather than a desire for return on capital.
6. Explore adoption of an *ad hoc* visiting faculty program, in order to relieve pressure on operating costs while enhancing the quality of the teaching faculty.

B. International Affiliations.

Since its inception, CU has aggressively developed relationships with other international universities and accreditation agencies. In fact, its core curriculum and Ph.D. programs have been explicit joint efforts with Georgia State University in the United States and it offers joint degree programs with Grenoble Graduate School of Business in Grenoble, France. However, in many ways to date CU has essentially acted on its own, rather than enjoying the many benefits of collaborative international associations that leverage the collective strength of member universities to address critical developmental needs.

The most significant of these, in our judgment, is the Europe-wide “Bologna Process,” which was begun by a consortium of European universities for the purpose of facilitating the sharing among universities of critical expertise as well as exerting influence on governments to essentially “deregulate” higher education administration so that universities could freely pursue policies of self-improvement. While the Republic of Georgia recently joined the Bologna Process, there have been clear indications that the Georgian federal government has been misinterpreting Bologna to be a vehicle for *increased* rather than *decreased* regulation and control of higher education policy – very much to the concern of Georgia’s universities. We will note as an aside that this subject is particularly relevant to the Visiting Advisors Program, as it arose largely out of the Salzburg Global Seminar’s appreciation of the importance of the Bologna Process and its implications for universities in the former Soviet Union.

As we discussed in the final session, the Bologna Declaration of June 1999 has put in motion a series of reforms needed to make European higher education more compatible and comparable, more competitive and more attractive for Europe’s citizens and for people from other continents. This process is loosely structured and driven by forty-five countries including Georgia. The explicit goal is to establish the European Higher Education (EHEA) by 2010 by converging important structural features of their national systems of higher education. By 2020, the higher education system should be organized in such a way that

- it will be easy to move from one country to the other for the purpose of further study and employment
- the attractiveness of higher education in Europe will be increased
- the EHEA will provide Europe with a high-quality knowledge base and ensure further development of Europe as a stable and advance community

The intention is to ensure that all the objectives and instruments of the EHEA, for instance, the new degree structure and the development of qualifications frameworks, quality assurance, European Credit Transfer System (ECTS) and Diploma Supplement, will be implemented across the Bologna countries in a coherent and compatible way.

The Bologna process is the catalyst for the current massive reforms in European higher education. However, the onus of implementing these reforms lies with the individual countries and institutions. Therefore, we recommend that the University leadership create a coherent Bologna strategy and develop a set of measures to foster the implementation of the Bologna process reform agenda. Specifically, we suggest that University leadership consider the following:

1. Establish a Bologna group that will be in charge of the effective implementation of the Bologna reform at the Caucasus university
2. Strengthen the relationship with the key European structures developing the Bologna Process including European Association of Universities (EUA) and The European Students' Union (ESU)
3. Participate in the Bologna seminars – the events can be found at the website of the UK Bologna Secretariat (www.dfes.gov.uk/londonbologna)
4. Strengthen the relationship with the European universities including universities in Central and Eastern Europe
5. Launch effective dialogue with the Georgian Ministry of Education in order to foster implementation at of the Bologna reforms at the national and institutional levels
6. Initiate international Bologna conferences and strategic meetings in Georgia.

C. Faculty Management.

As noted above, the most significant issue that looms over this subject area is a critical strategic one for CU, namely what role should faculty most productively play at CU? Clearly, the role of research in a university can vary dramatically, from being a major focus fully integrated in every element of the university – as would be the case at a traditional “comprehensive research university” – to a more limited, tactical focus. The implications of this choice for a university are profound, affecting everything from the profile, compensation, expectations and career path of faculty to facility configuration to the University's overall revenue model.

At this time, CU has built its reputation on outstanding internationally-oriented teaching, and its revenue model is almost entirely based on tuition. Its faculty is currently primarily part-time, drawn from practitioners who leverage their skills to

teach students. A move to a more conventional “comprehensive” model will have the immediate effect of raising the cost of teaching, as a result of several dynamics: full-time faculty are generally more expensive than part-time per hour of work, plus teaching loads per hour of work are reduced in order to accommodate the need for research time, plus research has uncertain reimbursement. If not designed and executed thoughtfully and effectively, a move to greater research could not only complicate the hiring and retention of faculty but cause additional strain on the quality of the teaching product and CU’s base revenue model – at a time when the University is already under significant financial pressure.

That said, we will address the broad issue of faculty development issue within the following framework:

- Faculty need
- Faculty hiring and promotion
- Faculty motivation

We would like to start with CU mission statement: “CU’s mission is to *stimulate*, *encourage* and *facilitate* up-to-date (1), worldwide accepted innovative initiatives (2) in teaching and research. CU strives to disseminate ideas and skills of global significance (3), regional importance (4) and lasting value (5) in the South Caucasus Region.”

In order to better identify whether to attract permanent or visiting, junior or senior faculty clarification of the items numbers 1 through 5 is necessary. Moreover, the balance between research and teaching should be established. That balance will determine the faculty make-up in terms of the following factors:

- Full-time and part-time,
- Georgian and other nationalities, and
- M.S., M.B.A. and Ph.D. degree holders.

The composition of the faculty will definitely affect the cost of faculty. Additionally, if CU gets more international faculty on permanent basis, then they might need to offer housing which will further increase the cost of faculty.

Presently, CU has more faculty members with M.S. or M.B.A. degrees than Ph.D.s. If they are effective teachers as assessed by student evaluations, then this situation is acceptable for undergraduate courses for a developing university. However, for a university that strives for international recognition in research, there is a definite need for faculty with Ph.D. degrees and established publication records.

Utilization of part-time faculty for elective courses may prove to be very effective if they are good teachers; and be in line with creating lasting value in the South Caucasian Region since more students will come to CU for education from neighboring countries. These students will go back to their countries upon graduation and will help to build closer ties with the business environment in the region.

Another sentence from the mission is also noteworthy: “The development of CU is to support the fast development of the business sector in Georgia.” This statement ties closely with the above suggestion. The balance between teaching and research and the type of research – applied research versus theoretical research – are closely related. The second sentence implies that CU would favor research that would enhance the business sector in Georgia. However, if all research address the needs of Georgian business, then it might be difficult to publish such research in worldwide accepted journals such as those that are cited in the Social Science Citation Index. Therefore, clear guidance to faculty is necessary.

Next, we will discuss the faculty motivation issue within the framework of the mission statement. Regarding the word “stimulate,” there is a need for a well defined rank system in line with the regulation of the country. If possible, a promotion system based on a point system might be helpful for faculty. For example, ninety points are necessary to be promoted to full professorship of which should get fifty points should come from teaching and forty points should come from research (where each SSCI journal paper gets ten points, other international papers five points, etc.).

When devising the promotion system, composition of the faculty in terms of research and teaching becomes very important. The option of having two separate promotion schemes for teaching and research faculty might be a viable alternative. CU seems to have established good relations with the business community. This relation would be very helpful in applied research that could be published internationally.

Regarding the word “facilitate,” CU’s mission statement implies that the University aims to facilitate excellence in both teaching and research. Although somewhat related, these are nevertheless distinct and require different approaches. In order to facilitate teaching excellence, it might be beneficial to undertake initiatives such as the following:

- send faculty abroad to teaching workshops
- improve classroom facilities
- meet with student representatives to listen to their needs
- establish “best teacher of the year” award
- hold “search” meetings with teaching faculty
- create “focus groups” to determine student needs
- hold meeting with industry to determine business sector needs
- encourage consultancy by full-time faculty members

In contrast, in order to facilitate research output in the short-run, it might prove effective if CU pursued other initiatives:

- Improvement of library facilities through interlibrary loans with Georgia State University and Grenoble.
- Provision of access to well-known financial and other databases –perhaps again utilizing Georgia State University or Grenoble resources. Databases such as Emerging Markets, IFC, World Bank, and the IMF would be especially useful in carrying out comparative financial research.
- Use of free and trial basis databases.
- Investment in statistical analyses packages such as SAS, SPSS, MINITAB are usually very expensive for multiple users. Thus, if possible, obtaining password-based access to the Georgia State system to run these would be helpful in the short-run.

- Monetary or other recognition for published papers in well recognized journals.

In the intermediate to long-term basis, the following suggestions might be considered for increasing research output:

- Encouraging and paying for paper submissions in international conferences in related fields would help establish contacts within the international community and finding partner researchers.
- Holding international and regional conferences regarding global and regional economic, legal, and financial issues would be helpful in gaining international recognition.
- Starting a working paper series and writing cases regarding the Georgian experience would encourage faculty papers. These working papers and cases can be disseminated and discussed through the Internet. This will help CU get international recognition, and help faculty to find international research partners.
- Organizing teams within each school to determine “hot” research areas in related fields will provide research guidance for junior faculty. For example, research in finance seems a faster track for worldwide accepted publication.
- As the emphasis shifts to research, CU management needs to lower teaching requirements of research faculty and use more full-time faculty.
- Promotion criteria should be in line with the publication requirements of the University.
- Sharing promotion criteria and university goals with the faculty.

Faculty search processes could start with *Chronicle of Higher Education* and advertising in the publications of other area associations. In the short-run, faculty from ERASMUS partner universities could be invited for modular programs, or for Ph.D. seminars.

To address the need for more robust management of its faculty, the VAP Team recommended that CU do the following in addition to its current efforts:

1. Clarify exactly what role research should optimally play relative to teaching in the context of the University's mission and how that role is likely to affect the University's revenue model.
2. Undertake a comprehensive review of faculty profiles, policies, and management practices to ensure consistency with the desired role.

5. Summary

The founders and others together have built an extraordinary institution of higher education that has the potential to provide significant value to the students, companies, and people of the Republic of Georgia. Caucasus University has strong leadership with a compelling vision, innovative curriculum, committed faculty and a growing track record of generating outstanding graduates. At the same time, it faces many challenges moving forward, that are made all the more formidable by the tenuous financial situation of the university. The VAP team greatly appreciates the complexity of these challenges and has advanced several recommendations that we believe and hope will be helpful to CU leadership in navigating its way through these challenges.

Visiting Advisors:

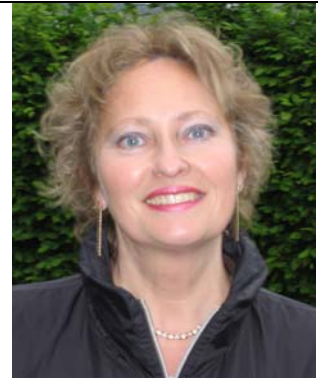
Paul CARTTAR (Team Leader), USA

Paul Carttar is an independent advisor, former special advisor to the chancellor, and former executive vice chancellor for external affairs at the University of Kansas, Lawrence. Before coming to University, he was chief operating officer for the Ewing Marion Kauffman Foundation in Kansas City, Missouri, one of the nation's largest private foundations. An expert in strategic planning and nonprofit management, in 1999, Mr. Carttar co-founded the Bridgespan Group, a Boston-based management-consulting firm. His professional career began in 1977 as assistant economist and budget analyst for the U.S. Senate Budget Committee. Later he served as a research assistant to Arthur Burns, former chairman of the Federal Reserve Board, and was selected to serve in Bonn as special assistant to the ambassador to West Germany, responsible for monitoring and assessing U.S. economic and political developments, speechwriting, and other functions. Mr. Carttar returned to the United States to join Bain & Co. Inc., a worldwide management-consulting firm in San Francisco, and then served in various marketing, planning and general management capacities with companies in the healthcare industry. He holds an M.B.A. from Stanford University, California.



Helene KAMENSKY, Austria

Helene Kamensky is program director of the Salzburg Seminar, where she is responsible for the development and direction of academic programs on higher education and related issues. Before joining the Salzburg Seminar, Dr. Kamensky served as an adjunct professor of philosophy at the Institutes of Philosophy at the University of Salzburg and the University of Vienna. Previously, she was research fellow at the Institute of Scientific Theory at the Salzburg International Research Center. From 1985 to 1989, she was dean of the Faculty of Foreign Languages at Novosibirsk State Pedagogical University in the Russian Federation, where she previously served as associate professor and senior lecturer in the department of philosophy. Dr. Kamensky's area of research interest is higher education policy and management. She holds a Ph.D. in philosophy from the Department of Logic and Epistemology at the Russian Academy of Sciences, which was authenticated by the University of Salzburg, Austria, in 1993.



Fatma Naciye Can MUĞAN, Turkey

Fatma Naciye Can Muğan is chairperson of the Department of Business Administration at the Middle East Technical University in Ankara, Turkey. An expert in academic accounting, Dr. Mugan is the co-author of the book *Principles of Financial Accounting: New Dimensions in Financial Reporting* and also the author of a range of articles including “Developing a Model for Firm Performance” and “Accounting as a Social Phenomenon” published in the *Journal of the Accounting Institute of Istanbul University* and also “Do Women Accounting Students Outperform Men? A Quest for Universal Traits” published in *Hacettepe University Faculty of Administration Digest*. She is an editorial board member of the *Accounting Education and International Journal*, *MODAV Muhasebe Bilim Dunyasi Dergisi*, and also the *International Journal of Accounting, Auditing and Performance Evaluation* and has served as a referee for *Accounting Education* and *The International Journal of Accounting*. Dr. Muğan holds a Ph.D. in accounting from the University of Illinois, Urbana-Champaign in the USA and an M.S. in accounting from the University of Istanbul.



John VAFAI, USA

John Vafai is a member of the New York State Bar and American Bar Association and is also a legal advisor at John Vafai & Associates where he is responsible for counseling clients in international business transaction. As part of his work with John Vafai & Associates, Dr. Vafai spent several years in Baku, Azerbaijan, where he advised western companies based in the Commonwealth of Independent States on issues concerning corporate governance, provided legal advice for foreign companies planning to do business in Azerbaijan and Georgia, was a consultant to the Ministry of Justice of Azerbaijan concerning judicial reform, and worked with the World Bank representative office in Azerbaijan to assist the country with respect to civil service reform. He is a former consultant to the Baker Botts Law Firm in Texas, former assistant regional counsel at the U.S. Environmental Protection Agency in New York, and former deputy head of the Department of Legal Affairs of National Iranian Oil Company in Tehran. Dr. Vafai holds a J.D. from the School of Law at Tehran University, Iran; an LL.M. from Yale University law School in New Haven, Connecticut; and an M.P.A. from the Kennedy School of Government at Harvard University in Cambridge, Massachusetts.



Schedule:

June 5, Tuesday, Arrival Day	
12.30-14.00	Lunch
14.00-18.00	City Tour
19.00	Welcome Dinner
June 6, Wednesday, Program Day 1	
10:00 – 12:00	Campus Tours
12:00 – 13:30	Meeting with the President, Program Presentation
13:30 – 15:00	Lunch
15:00 – 16:30	Working Group 1: Academic Structure and Governance within the University <ul style="list-style-type: none"> • General Organizational Issues • Development of Governing and Advisory Boards • General Management Issues • University Autonomy
17:00 – 18:00	Team Debriefing Meeting
19:00	Dinner
June 7, Thursday, Program Day 2	
10:00 – 11:30	Working Group 2: University Administration and Finance (I) <ul style="list-style-type: none"> • HR-compensation administration, Recruitment and selection
11:30 – 12:00	Coffee break
12:00 – 13:30	Working Group 2: University Administration and Finance (II) <ul style="list-style-type: none"> • Revenue Planning And Management • Allocation of Budget Resources • Tuition fees and related issues
13:30 – 15:00	Lunch
15:00 – 16:30	Working Group 3: Student Needs and the Role of Students in Institutional Affairs <ul style="list-style-type: none"> • Systems of Academic Credit and the transfer of credits between universities • Student evaluations of faculty members
17:00 – 18:00	Team Debriefing Meeting
19:00	Dinner
June 8, Friday, Program Day 3	
10:00 – 14:00	Team meets to prepare preliminary report
12:30 – 14:00	Lunch
14:30 – 16:00	Presentation of the Oral Report to the President and the University Team
16:00-19:00	Unscheduled Time
19:00	Farewell Dinner
June 9, Saturday	
	Sightseeing/Cultural Program
	Lunch
	Sightseeing/Cultural Program
	Dinner
June 10, 11 Sunday-Monday, Departure Days	
	Team departs

THE UNIVERSITIES PROJECT OF THE SALZBURG SEMINAR

Universities throughout the world are undergoing systemic changes in their governance, academic design, structure, and mission. From 1998 to 2003, the Salzburg Seminar's Universities Project focused on higher education reform in Central and East Europe, Russia, and the Newly Independent States as universities in these regions redefined their relationships with governments and try to become more integrated into the global intellectual community.

The Universities Project was a multi-year series of conferences and symposia convening senior representatives of higher education from the designated regions with their counterparts from North America and West Europe. Discussion in the Project's programs focused on the following themes:

- University Administration and Finance
- Academic Structure and Governance within the University
- Meeting Students' Needs, and the Role of Students in Institutional Affairs
- Technology in Higher Education
- The University and Civil Society

THE VISITING ADVISORS PROGRAM (VAP)

The Salzburg Seminar launched this enhanced aspect of the Universities Project in the autumn of 1998. Under the VAP, teams of university presidents and higher education experts visit universities in Central and East Europe and Russia at the host institutions' request to assist in the process of institutional self-assessment and change. To date, eighty visits have been held at universities in Central and East Europe and in Russia. The addition of the Visiting Advisors Program brought to the Universities Project an applied aspect and served to enhance institutional and personal relationships begun in Salzburg.

THE RUSSIAN HIGHER EDUCATION PROGRAM (RHEP)

In 2003, in response to the need for continued engagement, the Salzburg Seminar and the Ministry of Education of the Russian Federation initiated a five-year partnership (2003-2008) designed to promote the exchange of knowledge and best practices between the higher education leadership of the Russian Federation and their counterparts from North America, Western Europe and Central-Eastern Europe, Commonwealth of Independent States countries and Eurasia. The Russian Higher Education Program consists of two symposia per year, which take place in Salzburg and in the Russian Federation. Each symposium convenes representatives of universities, higher education organizations, service organizations, governmental structures, and stakeholders. The Russian Higher Education Program centers around five main topics:

- Russian Program of Modernization in the Context of Global Education Reform
- Higher Education Governance Reform: Issues and Challenges
- Strengthening the Role of Russian Universities in Service to Society
- Quality Assurance in Higher Education: Sharing International Experience
- Higher Education and Research (Networks, Linkages, Best Practices)

The Salzburg Seminar acknowledges with gratitude the William and Flora Hewlett Foundation, the W.K. Kellogg Foundation, and the Carnegie Corporation of New York, which provided funding for the Universities Project, the Visiting Advisors Program, and the extension of the VAP in Russia, respectively.

FOR MORE INFORMATION

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