

Role of business education for non-producing industries

Nowadays when economic and financial crisis has forced many industries to survive, the bigger attention should be given to non-producing sectors and the ability of business education to help those industries to participate in the economy boost. The paper tries to make an attempt to define the role of business schools in delivering value for those who are not involved into production of goods in order to help them to define their own role in the process of developing of a sustainable society.

In general, business is assumed as making profits. More or less it is better related to those businesses that are involved in dealing with transacting something tangible – manufacturing, trade, etc. But there are larger parts of population who are not participating in this kind of transaction but also secure a part of the world’s GDP with their jobs. Business schools can help these people from non-manufacturing spheres of economy to be more effective in pursuing their desires to have their own “slice of the pie” from what they can do – cure patients, teach children and so on.

Let us first examine the term “non-production industry”.

As it is commonly known the economy consists of three basic levels which altogether can be considered as a sort of pyramid (Figure 1).

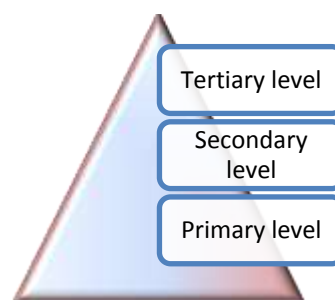


Figure 1 – Three levels of economy

The ground level of the pyramid represents those industries that are involved in exploration of materials. The second level is about producing tangible products out of those raw materials obtained by the first level and, thus, it is called secondary one. The third level is one which neither explores raw materials nor produces tangible goods but utilizes the results of the previous two and, accordingly, should provide the lowest levels with results of their own jobs. This level is called

tertiary one and employs the job of those who constitute the service sector in the economy. As Wikipedia defines “The tertiary sector of the economy (also known as the service sector or the service industry) is one of the three economic sectors, the others being the secondary sector (approximately the same as manufacturing) and the primary sector (agriculture, fishing, and extraction such as mining)”.[16] A non-manufacturing industry is an industry that does not make anything tangible, but produces a lot of services and ideas and thus, one definition states that “some non-manufacturing industries include the ‘service’ professions, such as nursing, social work and teaching”.[17]

The World economy more and more shifts to the service sector’s side. Looking at the diagram (Figure 2) that identifies twenty World largest countries by their service output in 2013, according to the IMF and CIA,[18] we can see that the share of service sector in GDPs of these countries is absolutely high in all economies.

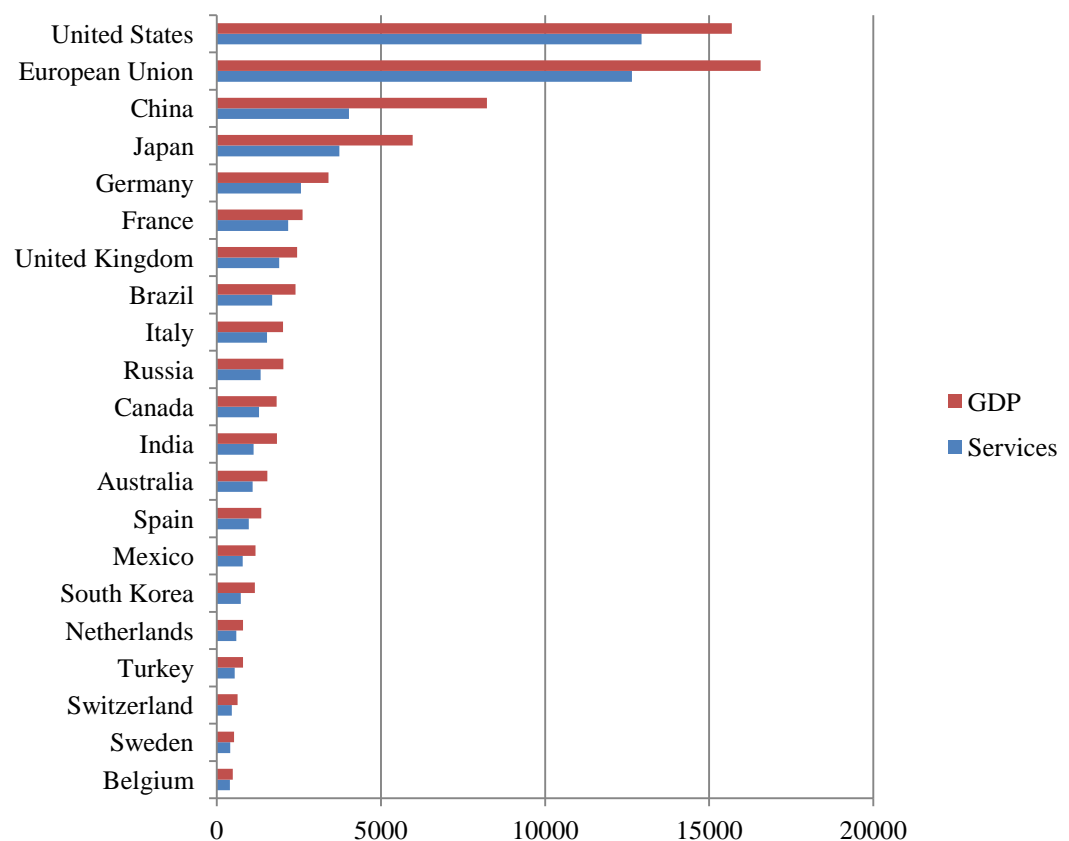


Figure 2 - Largest countries by tertiary output in 2013

Data combined by the authors from sources #12and #15.

A shift has been made in the definition itself, as non-producing sphere of economy is a kind of conditional term which considers those activities that do not comprise material production. Currently this term has been substituted by the notion of socio-cultural sphere.[5] We have to clearly differentiate between those industries that are not manufacturing by nature (trade, logistics,

transportation) though they are able to gain their profits through the activity of producing sectors, and those that are as non-manufacturing as do not exercise anything from other businesses in terms of profits or benefits because they are by no means related to production of tangibles and are “pure” services (medicine, education, consulting, theater, and others).

Number of services is increasing and as a result the 10th edition of ICGS, which is currently in action, has significantly defined, along with the extending the list of goods, the range of activities related to providing customers with various services. Thus, that edition of the Classification adds some more new services like “production of advertising films”, “rental services”, and many in insurance, finance, telecommunication, etc. [15]

In order to understand the role of services in the economy of Kazakhstan, let us have a look at the situation with industries’ structure of 1990 and 2000. The Table 1 shows the share of industries in the GDP of the country. [7]

Table 1 – Industries share in the GDP of Kazakhstan

	Share of industries in GDP in 1990	Share of industries in GDP in 2000
GDP	100	100
Agriculture	34	9
Manufacture	21	32
Construction	12	5
Trade	8	13
Transport	9	10

The QUANDL index, the biggest storage of economic data, defines that in 2013 “Kazakhstan’s economy is predominantly services-based. Agriculture accounts for 4.31% of GDP and employs 26.50% of the population. Manufacturing and industry accounts for 38.77% of GDP and employs 19.00% of the population. Services accounts for 56.92% of the GDP and employs 54.60% of the population.[13] This is obviously about Global trends that we can monitor now in the Republic of Kazakhstan, too.

The current tempo of economic development of Kazakhstan is justified by a very good rate of the service industries’ development. Even during the latest financial crisis it was seen that decreased growth of production in the economy of Kazakhstan was balanced by increase in its service sector. And the main drivers of this increase still traditionally remained in 2012 were trade, information services, and communication.[12] The high business activity in the service sector was maintained by the growth in consumer spending (5,8% share of GDP for 9 month period of 2012) and increase in consumer credits as a sequence.[12] All these say about the increased role of so called non-production industries in the economy of the country.

For better understanding of the situation with service industries in Kazakhstan let us look at the data of the National Analytic Center that showing the composition of industries verifies that in 2012 the service sector comprised more than half of the national GDP (Table 2). [10]

Table 2 – GDP structure of Kazakhstan economy in 2012

	1 st half of 2012, mln tenge	GDP structure by main industries, % of total
GDP	12 535,9	100,0
<i>Production of goods</i>	5 104,6	40,7
Agriculture	292,9	2,2
Manufacture	4 134,9	33,1
Mining industry	2 398,2	19,1
Processing industry	1 437,8	11,6
Building&Construction	676,8	5,4
<i>Production of services</i>	6 543,4	52,2
Trade	1 744,9	13,9
Transport	858,8	6,8
Information and Communication	309,8	2,5

According to the data from doingbusiness.org the country shows good signs of growth which are depicted by 2013's 7 per cent growth in rank comparing to 2012 (from 56 to 49) and 0,4 per cent increase in distance to frontier (from 62.6 to 63 per cent).[11] The change in rank and its growth show a good opportunity for investors that could also invest into development of the country's service sector, too.

The country also shows good tempo of GDP per capita growth [9] that would reflect people's ability to spend their earnings to services.

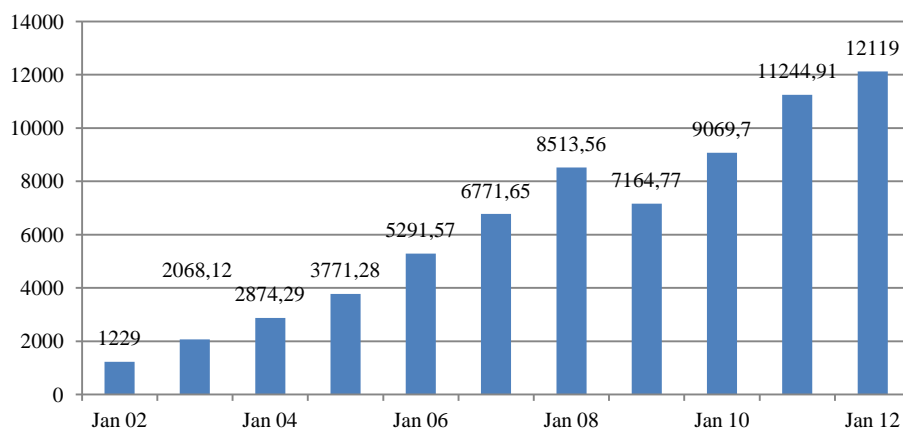


Figure 3 – The trend of the GDP per capita in Kazakhstan

Better wealth of people allows them spending more on various commodities and on education as well as it was also called “a commodity that can be extracted, manufactured, and sold as a private good” by Lana Nino from the Whittier College, USA in her article “*Ideological And Historical Challenges In Business Education*”. [6] The only question is: how these people can

obtain money to spend? If everything is clear about those who are involved in production of goods, it is not so about those who are in non-manufacturing industries. And the issue is – if these people are able or they can be very entrepreneurial in nature and what business schools can do to help these people to be like that. It is obvious that these people should be very entrepreneurial, at least at the moment when they have to make money to pay for their living expenses. Where should they take this money? Obviously, they can do it from their jobs or saying more precisely – from selling or promoting their professional abilities or artworks, for instance. What should educational institution do and what should they have to help non-manufacturing people to be entrepreneurial?

Business education as any other institution has its own history through which it has developed. Rakesh Khurana in his book *“From Higher Aims to Hired Hands”* has identified three periods of American business education’s development: [3]

1. the phase of “professionalization” that “led to the emergence and diffusion of business schools” and that lasted from 1881 to the time of World War II;
2. “the institutionalization of business schools that took place during an era of reform and standardization” that is about the time period from 1941 to early 1970s; and
3. “the shift of business schools away from an orientation toward professionalization” which is still lasts starting from 1970s.

As writers in business management noted “one of the reasons that the business schools were founded was to create professional entities and organizations responsible for training the business manager”. [6] Khurana (1997) describes the major goal of business schools as follows: (cited by Lana Nino) “The profit-maximizing imperatives of business were seen to be at odds with the more disinterested mission of universities. Business education came to be an accepted and uncontroversial part of the university only through the efforts of a vanguard of institutional entrepreneurs, both academics and managers, who saw the need for creating a managerial class that would run America’s large corporations in a way that served the broader interests of society rather than the narrowly defined ones of capital or labor”. [3]

Mostly business education is assumed as one that can be obtained through MBA programs. Recently there have been a lot of discussions on what MBA is and what impact on organizations and management profession it has as well. The scene for the discussion was set by the report on business education named *“Higher Education for Business”* [8] written and published in 1959 for the Ford Foundation by economists Robert Aaron Gordon and James Edwin Howell. This report reflected the view of standards in business schools and quality of programs taught as the authors claimed that academics were more like charlatans and programs were too narrow and weak with lack of cases, full of theories and teaching of ethics. It was also stated that faculty member should better participate in consulting activities and do their research work.

An internationally famous academic and author of multiple books in business and management Professor Henry Mintzberg in his work entitled “*Managers Not MBAs*” (Mintzberg, 2004) accuses business schools of being enchanted with number of students and for their attitude to management as a science. Conversely, Henry Mintzberg regards management as practice and states: “Management is where art and craft and science meet,” and most MBA programs are simply “training in analytical skills for analytical jobs... like investment banking and consulting.”[4]

Henry Mintzberg also suggested that “Management is largely about interruption” in his interview “*What Managers Really Do*” to Wall Street Journal (August 17, 2009) [14], and this can be seen as interruption of the external environment into a manager’s job and the manager’s interference into all aspects related to his work. It means that managers should not just have a certificate of their knowledge but should be able to recognize all the deep aspects of their industries. Mintzberg says: “If people want to be managers, there’s a better route to it: get into an industry, know it, prove yourself, get promoted into a managerial position—and then, go to a program that uses managerial experience explicitly—not other people’s cases, but your own experience.”

Delivering value to consumers serves as imperative for current businesses. Business schools should deliver value to their customers from non-production sectors to allow them benefit from their business knowledge they can possess and their ability to do their professional activity, and both should coincide. As it is shown in Figure 4, the value delivered to consumers can be compared to a profit that is received at the exchange of the consumers’ costs expressed in money, time, and spent psychological and physical efforts.

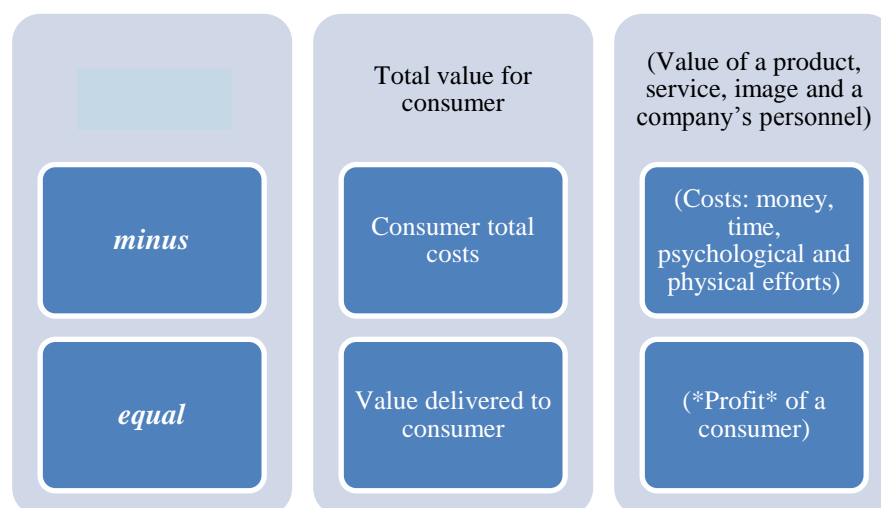


Figure 4 - Consumer delivered value

Adapted from: Philip Kotler, John Bowen, James Makens “Marketing for hospitality and tourism”, 1996, Prentice-Hall, Inc., p. 344 [2]

To our mind, the role of an educational institution is delivering that value by giving the opportunity to those who stay in services and want to use their capability not just create artworks, for example, but earn money from them. Educational institutions should develop very specific curricula for those people from non-producing sectors who would like to increase their entrepreneurial vein. Henry Mintzberg mentions that “there are no natural surgeons. But there are all kinds of natural managers, people who are hugely successful and never spent a day in management class. It’s not a science or a profession. It’s a practice.” Mintzberg suggests that there should be developed a “natural managerial program,” where “soft skills” along with ethical activity should be mixed up with analysis. [14]

Business schools in Kazakhstan undergo changes as the country develops. The new Strategy “Kazakhstan-2050” sets some priorities to assure the country’s success in its economic growth. One of its priorities defines key trends of modern educational system and teacher professional training and development. These key trends are knowledge and professional skills that would contribute to the country’s development. Overall goals in the educational sphere have been defined as “transfer to new quality of teaching, creation of an effective system of education, participating in world level research projects, and be connected to innovation processes”. [1] In this situation an educator should play the role of a conductor for new generations to reaching the set goals. Business schools should say their own word in this by developing new programs.

We as a country still need to develop business ideas or better to say entrepreneurial vein in people and more of that in representatives of non-production sectors. Business schools in the country can undertake some steps in that direction avoiding mistakes that have been made in Western countries. As Kazakhstan has adopted the credit technology of education it may also obtain those shortcomings in creating educational programs. In creating appropriate programs we certainly can use the experience of the Western countries which seems very rich and helpful. How can Western communities help to develop the solution to that case?

Kazakhstani business schools can rely on such ideas like some proposed by AACSB after the report of Gordon and Howell to develop “curricular standards for the field requiring students to take up to 60% of their course-work in the liberal arts area” (Mason, 1990). [6] It means that educational programs should take graduates from mere “vocationalism” to the sphere of liberal arts that would comprise their solid functional abilities in the specific areas with business knowledge. First of all Kazakhstan business schools are better to understand that they should not provide customers with just “professional” courses. The part of the society that is being discussed in this paper might have already obtained professional knowledge. They only need to have some knowledge how to manage their industries’ businesses and receive strong understanding in other business related functional spheres like marketing, accounting, finance, and etc. It is needed that

business schools prepare not apprentices but ready specialists that can make decisions in different professional and business situations. It seems that local business schools can do the following actions.

1. It is always not an easy task to create business courses and even more difficult to do this for non-production people. To add to the debate between practitioners and theorists it is worth to mention that, in general, when such courses are created, practitioners know a lot about their own fields, but theorists possess much information about new theories, innovations, and current approaches to development of industries. Thus, it would be good if the parties found points of coincidence between the both in order to cooperatively develop managerial qualities in each specific industry.

2. Business schools themselves should be more independent, otherwise they would always depend on those who provide them with money – investors or shareholders, or even those who come to be taught. This means that business schools should offer courses that would follow the world trends and be attuned to the current challenges of the environment. It seems that courses developed for professional managers from non-manufacturing industries could be integrated, combining different directions into one discipline. In order to allow academics to be in tune with the current trends in sciences, business schools should create proper scientific atmosphere and facilitate research activities in professors by giving more academic autonomy to them.

3. Business schools should turn their attention to internal resources – faculty and train and develop them by sending to various courses, business trips, and alike. The most effective way of faculty development could be on-site training that implies that faculty would work side by side with future professional managers in some specific industry. It seems that this approach would require a certain group of taught clients, and this can be exercised through delivering corporate programs – ones developed in accordance with needs of a certain company or industry. By promoting this approach business schools could receive two-folded benefit – both parties would win: instructors be more aware of professions and professionals would explore better theoretical aspects of management.

4. To be more qualified as managers, future professional graduates could be involved into international exchange programs especially designed for each specific industry. In that sense business schools should extend their cooperation links between other countries' universities and related spheres of economy. That would demand from business school to show their own abilities to do business by crossing up different industries together.

5. In the globalized world voices for social responsible businesses are heard. It is basically about responsibilities of businesses before the society and responsibility of organizations before employees. Business schools should have a basic role to make the issue known to many people of

the society in order to make them feel of being involved into creation of a better future. This is not only about individual responsibility but mutual responsibility of businesses before not only shareholders, but even those who do not hold any shares in manufacture of goods. In the turbulent environment when every person in the society is concerned with his economic standing, business schools must provide the society with better methods to understanding that responsibility. They can do this through their own responsible actions toward those who would like to obtain essential values from them to be able to improve their living standards relying only on their professional qualities. Business schools must develop syllabi that would sew in the concept of social responsibility by inventing new ways of showing this concept in action.

6. In the modern world a business person cannot survive if he is only the one who possesses only professional knowledge either specified or managerial. Will survive only those who can combine qualities of both, plus knowledge and understanding of art and culture. The issue can be resolved by creating the cohort of managers from non-manufacturing occupations who are seen as ideal professionals being able to participate in fulfilling the country's GDP by intellectual and economic potential. This can be done through designing some cross-cultural courses that would imply participation of representatives of artistic and cultural spheres for developing creativity in the future professionals' minds and enriching their experiences.

Starting from very late 1980s and mostly from early 1990s Kazakhstan has introduced the row of business schools that are now developing and obtaining stronger influence on the society. At the beginning of that process the country had only one noble idea – to provide the economy with specialists of new knowledge. Nowadays the paradigm has changed to one that business schools should provide the country's economy with those specialists that act decisively and professionally in all sectors of the economy the largest part of which is now represented by those who are not referred to manufacturing or production of intangibles. Considering this issue through a desk research the authors tried to suggest some actions that responsible business schools can do in order to foster highly qualified professionals in non-producing sectors of the economy.

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