



Development of NES strategic plan for 2010–2015

BOARD OF DIRECTORS MEETING

Moscow, October 4, 2010



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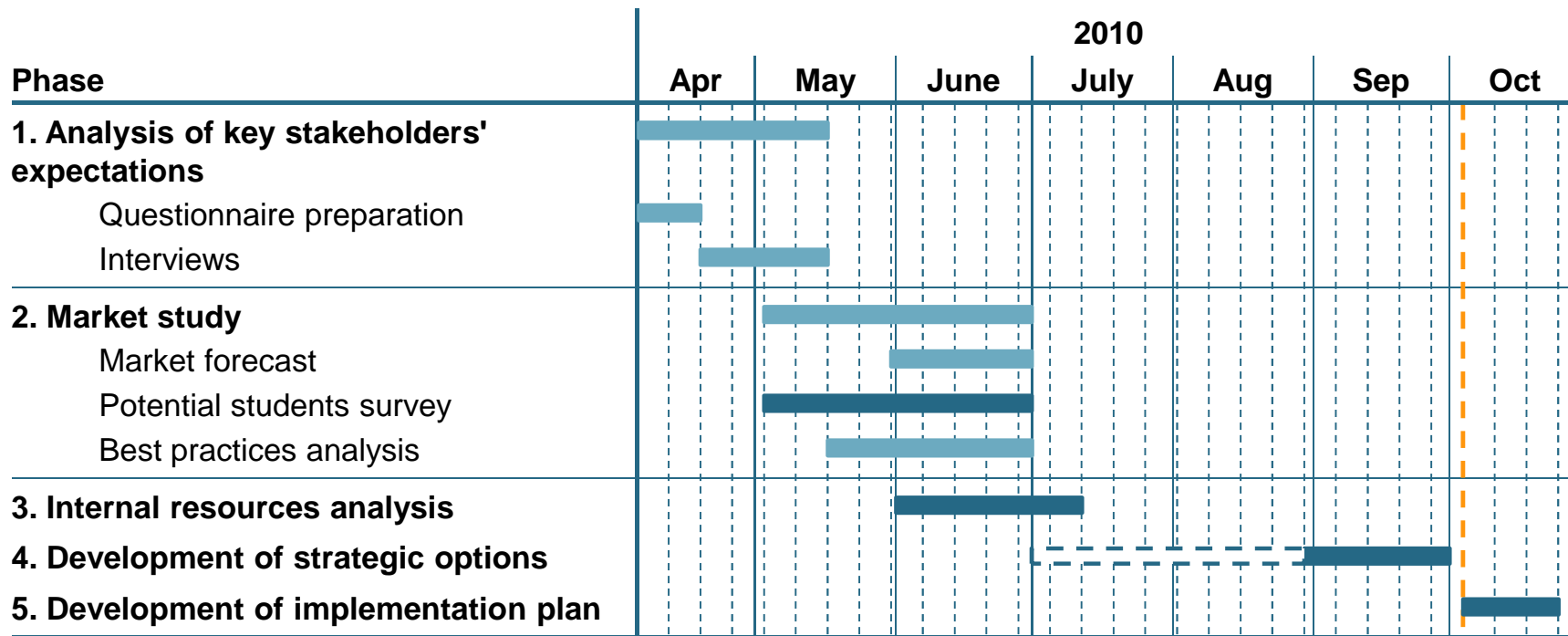
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A. Project status

We finished four phases of the project

Project plan and status



Current status

[Light blue box] Conducted by Roland Berger

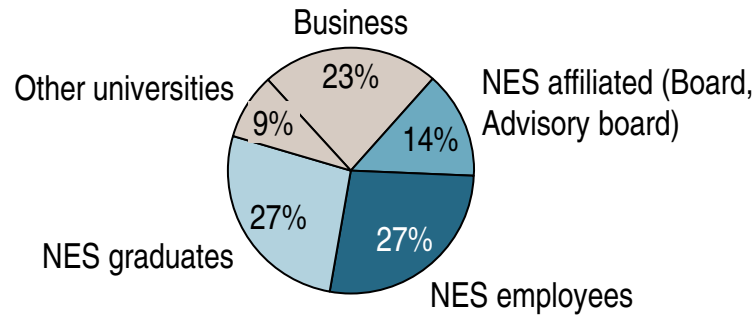
[Dark blue box] Conducted by NES with methodological support of Roland Berger

We interviewed main stakeholders, conducted best practices research and market analysis

Project status

STAKEHOLDERS INTERVIEWS

TOTAL: 56 interviews/written answers

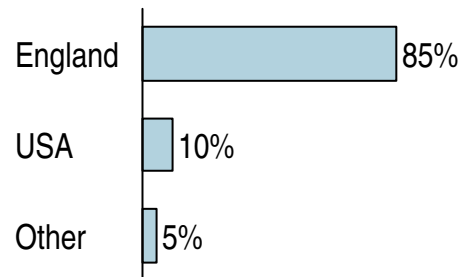


BEST PRACTICES ANALYSIS

- ✓ University Zurich Interview: Dean Falkinger
- ✓ CERGE-EI Interview: Director S. Jurajde
- ✓ SSE Interview: Prof. Segestron
- ✓ CEU Internet research
- ✓ ESMT Internet research

SURVEY OF RUSSIAN STUDENTS FROM WESTERN SCHOOLS

TOTAL: 82 participants



BENCHMARK OF RUSSIAN UNIVERSITIES

- ✓ HSE
- ✓ Graduate School of Management
- ✓ MSU (Economics dept.)
- ✓ The Academy of National Economy
- ✓ State Economics and Finance University in St. Petersburg



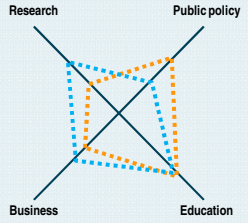
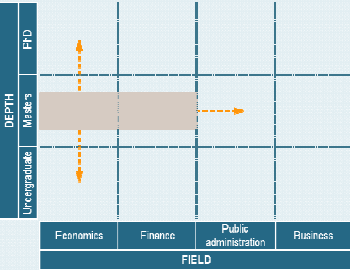
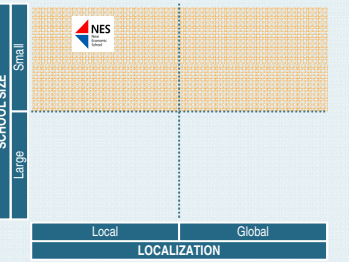
B. Stakeholders interviews overview

Stakeholders' interviews summary

- 1 NES IS VERY **UNIQUE AND SUCCESSFUL**. STAKEHOLDERS PROUD OF BEING PART OF IT
- 2 **GROW**. BUT DON'T COMPROMISE QUALITY. MODERATE GROWTH IS PREFERABLE
- 3 BIGGEST RESTRICTION FOR FUTURE GROWTH IS SITUATION WITH OWN CAMPUS
- 4 THE SCHOOL NEEDS **MORE STARS** FROM FACULTY TO BECOME OPINION MAKERS OF MR. GURIEV'S LEVEL
- 5 THE SCHOOL NEEDS MORE SUSTAINABLE MECHANISM OF **FUNDING**

We asked all range of questions: from current status to strategy to tactical steps to achieve the strategy

Stakeholders' interview structure

0 NES DEVELOPMENT STATUS, 2005–2010	1 NEW MISSION FORMULATION	2 FUTURE SPECIALIZATION	3 SCHOOL SIZE AND LEVEL OF GLOBALIZATION	4 STEPS TO ACCOMPLISH THE STRATEGY
<ul style="list-style-type: none"> > Evaluation of NES development in 2005 - 2010 > Obstacles/problems for the future development > Perceived positioning of NES <p><i>Status quo</i></p>	 <ul style="list-style-type: none"> > What are main priorities? > How goals should be balanced? > What are main principles? 	 <ul style="list-style-type: none"> > Should NES be highly focused school or broaden its focus to other areas? > Does it make sense to offer undergraduate and PhD programs? 	 <ul style="list-style-type: none"> > What is optimal school size? > Local or global? <p><i>Development priorities</i></p>	<ul style="list-style-type: none"> > Financing > Alliances > Campus > Classes offered <p><i>Tactics</i></p>

All interviewed stakeholders think that NES development was very successful in 2005 - 2010

Question: Was NES successful in 2005 – 2010 and why?

KEY ACHIEVEMENTS	% OF STAKE-HOLDERS AGREED ¹⁾	INTERVIEW QUOTES
<i>Set up leading economic school in Russia</i>		<ul style="list-style-type: none"> > "Internationally, NES is regarded as the best economics school in RF" > "It is the best place to do economics in Russia" > "Top notch graduates"
<i>Impact on Russian education system</i>		<ul style="list-style-type: none"> > "NES is rather unique in Russia" > "Role model for other universities in terms of transparency and independence from state"
<i>Bringing back Russian economists</i>		<ul style="list-style-type: none"> > "Was able to attract bright professionals from Western Schools" > Changed image of the School which prepared specialists only for Western programs to one that works for the Russian economy" > ...
<i>Impact on Russia's public policy</i>		<ul style="list-style-type: none"> > "High reputation both in business and political circles" > "There is certain influence on government" > "High visibility in press"

1) 5 – correlates to 100%, 1 – to 20%

Interviews also identified obstacles for future development

Question: Improvement areas for future development

IMPROVEMENT AREAS	IMPORTANCE IN OPINION OF STAKE-HOLDERS	INTERVIEW QUOTES
<i>Financing</i>	X X X X X	<ul style="list-style-type: none"> > "Financing model is not sustainable" > "You need to increase endowment fund. I'm ready to help"
<i>Own building</i>	X X X X X	<ul style="list-style-type: none"> > "NES can't bring people in expensive suits to such premises" > "Biggest barrier for successful development"
<i>One figure centric</i>	X X X X	<ul style="list-style-type: none"> > "NES is not self sufficient, it's all about Guriev and his efforts. Without him, the School is not sustainable" > "NES needs new, Guriev level, stars" > School's image is formed mostly by Guriev personally"
<i>Scale</i>	X X X X	<ul style="list-style-type: none"> > "The School is not widely recognized. Well known only in small circles" > "Ambitions level of NES' founders could be higher" > "The main threat is to remain small and beautiful"
<i>Graduates' soft skills</i>	X X X	<ul style="list-style-type: none"> > "Among graduates no stars, millionaires, successful entrepreneurs" > "Business is not interested in NES graduates, they can't communicate" > "Lack of emotional skills"

1) 5 – most important, 1 – less important

NES is perceived by stakeholders as strong academic institution with limited visibility

Question: describe current NES positioning, who are main competitors

Very good academic positioning...

- > "Elite school actively engaged in public discussions"
- > "Russia's most serious academic institution"
- > "Top economics MA program in Russia"
- > "If you want to study economics and get high quality education, go to NES. If you need practical knowledge, go to other place"
- > "School with brains and capable people"

✓ **80% of respondents**

Main competitors are Russian Universities

- > HSE, MSU

✓ **90% of respondents**

...But limited visibility

- > "Elite independent school well known within narrow circles"
- > "Small niche player, not known widely with limited influence on public policy"

✓ **20% of respondents**

NES competes with MSU and not LSE so far and also too small to be seen

Visibility and balanced growth while keeping quality – consensus opinion of stakeholders on NES' vision by 2015

Question: What NES should accomplish by 2015 to be successful in your opinion?



2015

AMBITIONS

- > "Become top 100 economic schools in Europe"
- > "Widely recognized in Russia as best economic school"
- > "Elite economic school with world wide recognition"
- > "School independent in its opinion"
- > "Widely known for its high caliber graduates and high quality research"

GROWTH

- > "Aspire to become full scale economics university"
- > "Balanced quality and size"
- > "School with its own hi tech campus"
- > "Optimal size 500 – 1000 students"

DON'T BECOME

- > "Business School"
- > "As big as HSE"
- > "Too large. Large school means state school in Russia"
- > "Marginal"
- > "Soviet style school"

Most stakeholders believe that the current mission statement is well suited for the next five years

CURRENT NES MISSION¹⁾

The mission of NES is to benefit Russia's private and public sectors through excellence in economics education and research. NES:

- trains new academic economists for Russia;
- produces globally competitive economics research;
- brings back foreign-trained Russian economists to work in Russia.

NES contributes to improving Russia's public policy through both graduate training in economic policy and applied research at CEFIR

NES trains economics and finance professionals for Russia's private sector. NES also provides Russian and international businesses with research, executive education, and consulting.

NES aims to become a model for other institutions of developing and transition countries in building centers of excellence in economics.

1) Excerpt from NES mission statement

DON'T CHANGE 90% OF RESPONDENTS

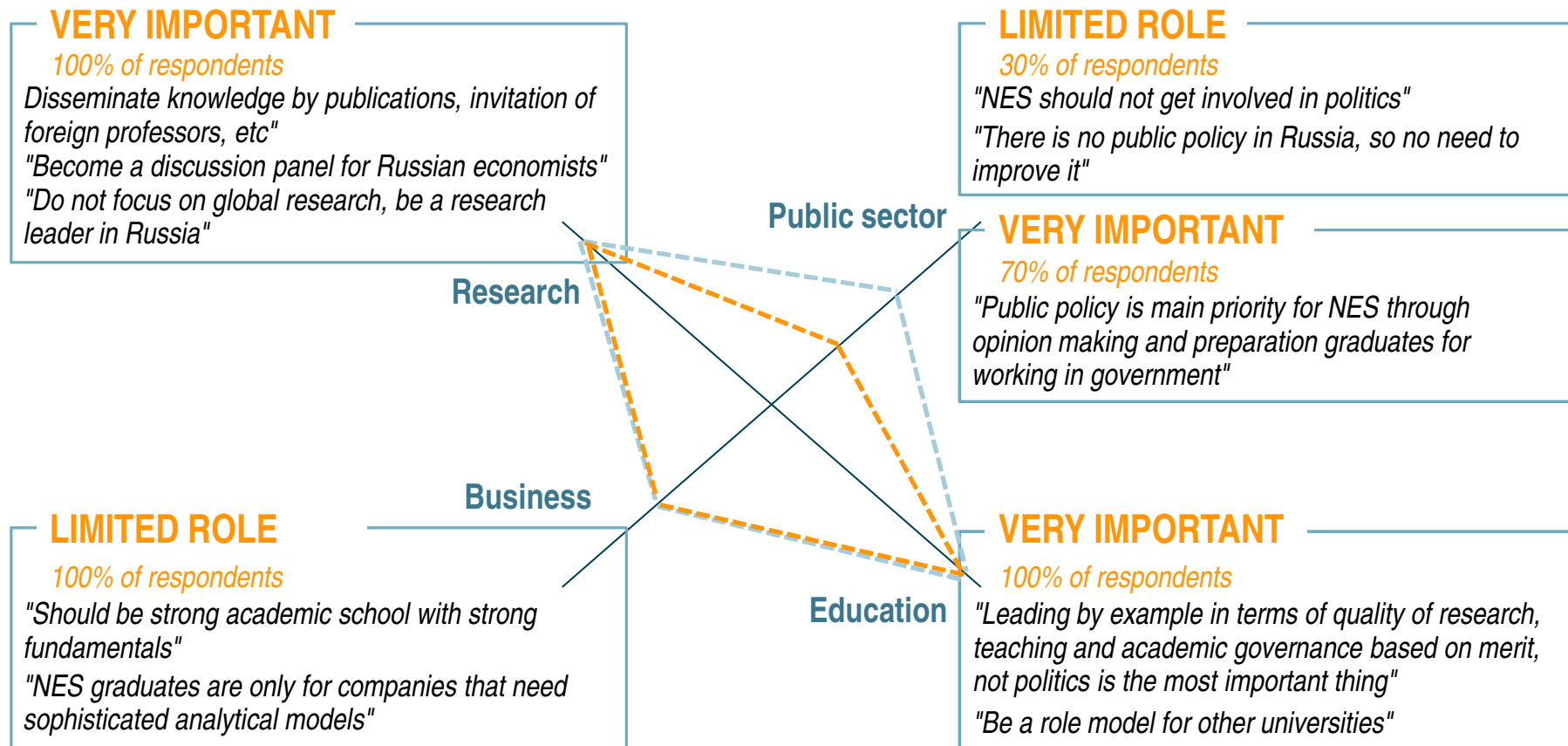
- > "It is too soon to change – could absorb some fine tuning"
- > "The mission remains appropriate"
- > "As it is currently stated is as important as ever"
- > "No, just better accomplish it"

+/- 10% OF RESPONDENTS

- > "More explicitly mention the "public role" of NES"
- > "An undergraduate, not master's, program should play main role in future NES development"
- > "Add regional focus in your mission – select students from regions, help regional governments with public policies"

Stakeholders agree on three dimensions of NES priorities, controversy over NES involvement in public policy

Question: What are main priorities in NES mission?

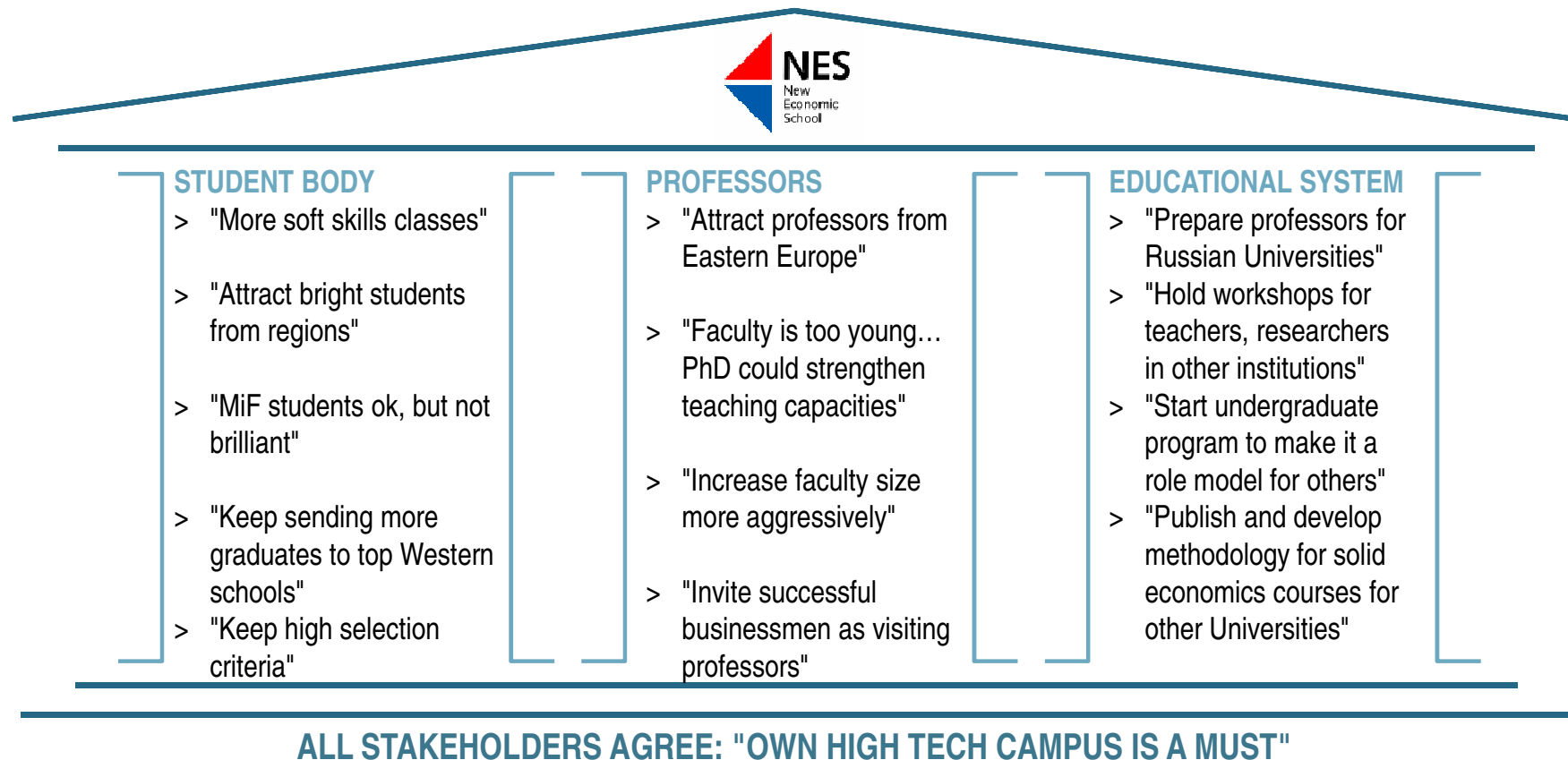


--- Priorities configuration

Source: interviews, Roland Berger Strategy Consultants analysis

Stakeholders agree on more regional focus and soft skills for students and bigger impact on Russian educational system

Stakeholders ideas on approaches to accomplishing strategic priorities – education



Stakeholders agree research topics should be closer to actual issues, opportunity to be discussion center for economists

Stakeholders ideas on approaches to accomplishing strategic priorities – research

Research impact/excellence

- "Become center of economic discussions in Russia, hold workshops and panels, start full scale economics magazine... There is a great need for such center and NES can take this role"
- "Much stronger emphasis on research, organization of conferences, communication with various organizations of economists (including academy of science)"
- "Maintain active contacts with economists world-wide through an active exchange program"
- "NES should be a "centre of excellence a "liberal alternative" in the economic debate"
- "Foster first-rate research by own junior faculty"

Research topics

- "More discussions when choosing research topics"
- "Define some topics where NES can become global leader – e.g. focus on issues of transition economics"
- "Ask businesses and government – there is need for your expert role"
- "Main research priority – Russia's integration in world economy"

Short term: opinion making and research on actual topics; long term: preparation graduates for public sector

Stakeholders ideas on approaches to accomplishing strategic priorities – public sector

OPINION MAKING

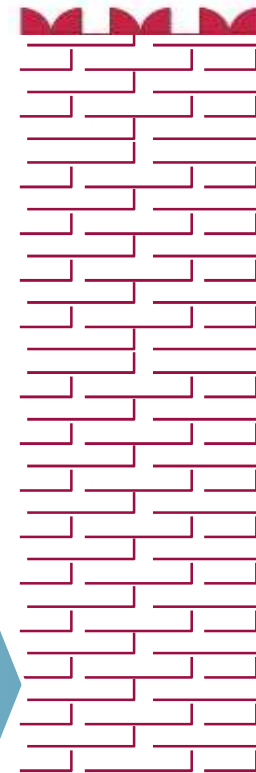
- > "Promote professors from NES into advisory boards of Russian state companies"
- > Create more opinion makers from NES (not only Guriev and 2-3 others)"
- > "Bring top thinkers with public lectures"

RESEARCH

- > "Conduct research on actual topics for Russian government, on federal and regional levels"
- > "More active participation of NES in public policy as experts, for example in Duma"
- > "Do more relevant research in Russian"

STUDENTS

- > "Prepare graduates for work in public sector. It's your long term strategy in influencing public policy"
- > "Make special PA courses and some time later PA program"



Business think NES graduates lack business sense and need research for actual topics

Stakeholders ideas on approaches to accomplishing strategic priorities – business

Graduates

- "Graduates have very good mathematical skills but they are weak in terms of business knowledge"
- "NES graduates are well suited only for very specific work (e.g. analysts), but I don't think it is a problem – you found your niche and you have demand for such graduates. Think where else such people are needed"
- "Change your application process to look for students who are more people oriented. Include classes to develop their soft skills"
- "You need more die hard graduates if want to be in demand from private sector"

✓ **90% of respondents**

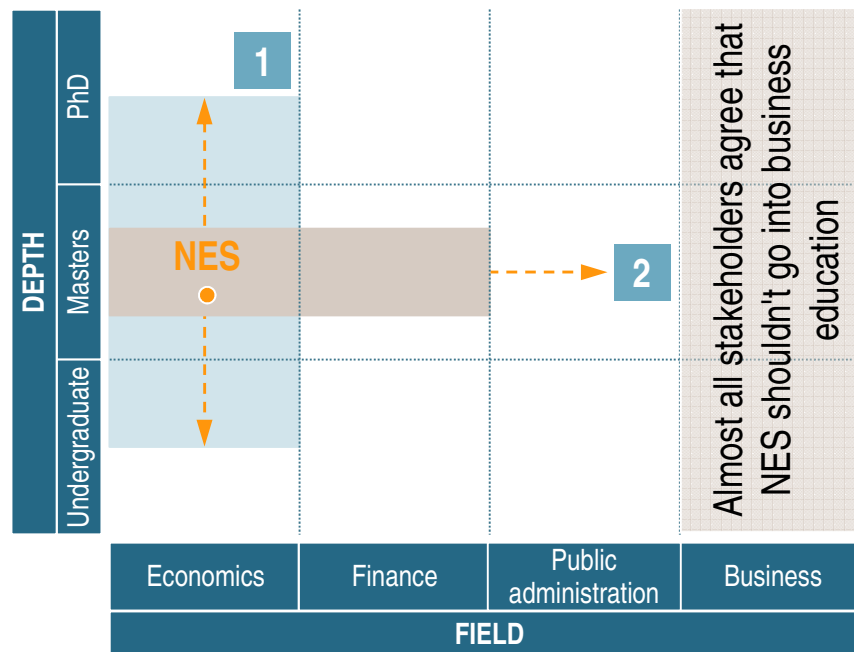
Research

- "When deciding on research priorities NES should focus more on actual topics for business"
- "More workshops with businessmen"
- "NES can offer consulting-like projects for businesses"
- "Cooperate more actively with large companies, but do not compromise your point of view for money"

✓ **70% of respondents**

Most of interviewed stakeholders believe that NES should specialize in economics, offering BS and PhD programs

Question: what are potential options for further specialization?



---> Potential specialization options

1

70% OF RESPONDENTS

"Own undergraduate program can be good source for the masters program"

"Without undergrad program, NES is a niche player"

"Yes, it should be small to start with, emphasizing quality over quantity"

"Definitely PhD yes, but you need to have senior faculty and developed academic market for its graduates"

2

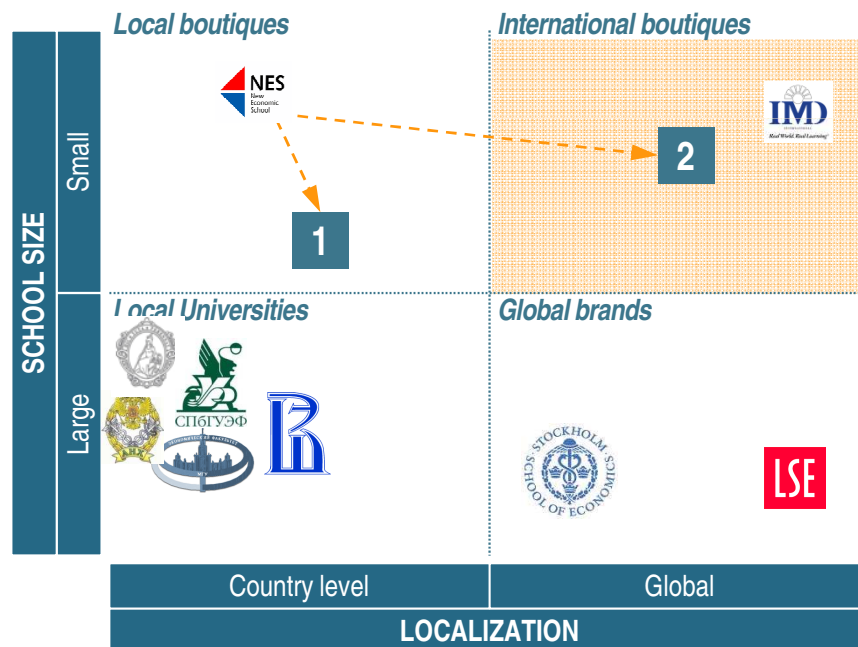
30% OF RESPONDENTS

"May be not full scale, but as specialization for masters in economics"

"Educate those who do or will do policy"

All stakeholders agree that NES shouldn't become big, most see the School as Russian/CIS focused

Question: Boutique school or mass production? Local or global?



---> Potential options

MAIN IDEAS FROM THE INTERVIEWS

✓ All interviewed stakeholders agreed that further growth shouldn't compromise quality

1

90% OF RESPONDENTS

"No need for international focus while Russia is not integrated into world economy"

"At this stage, no need for international focus"

"Global scope only through research and faculty, but with regard to students rather CIS focused"

2

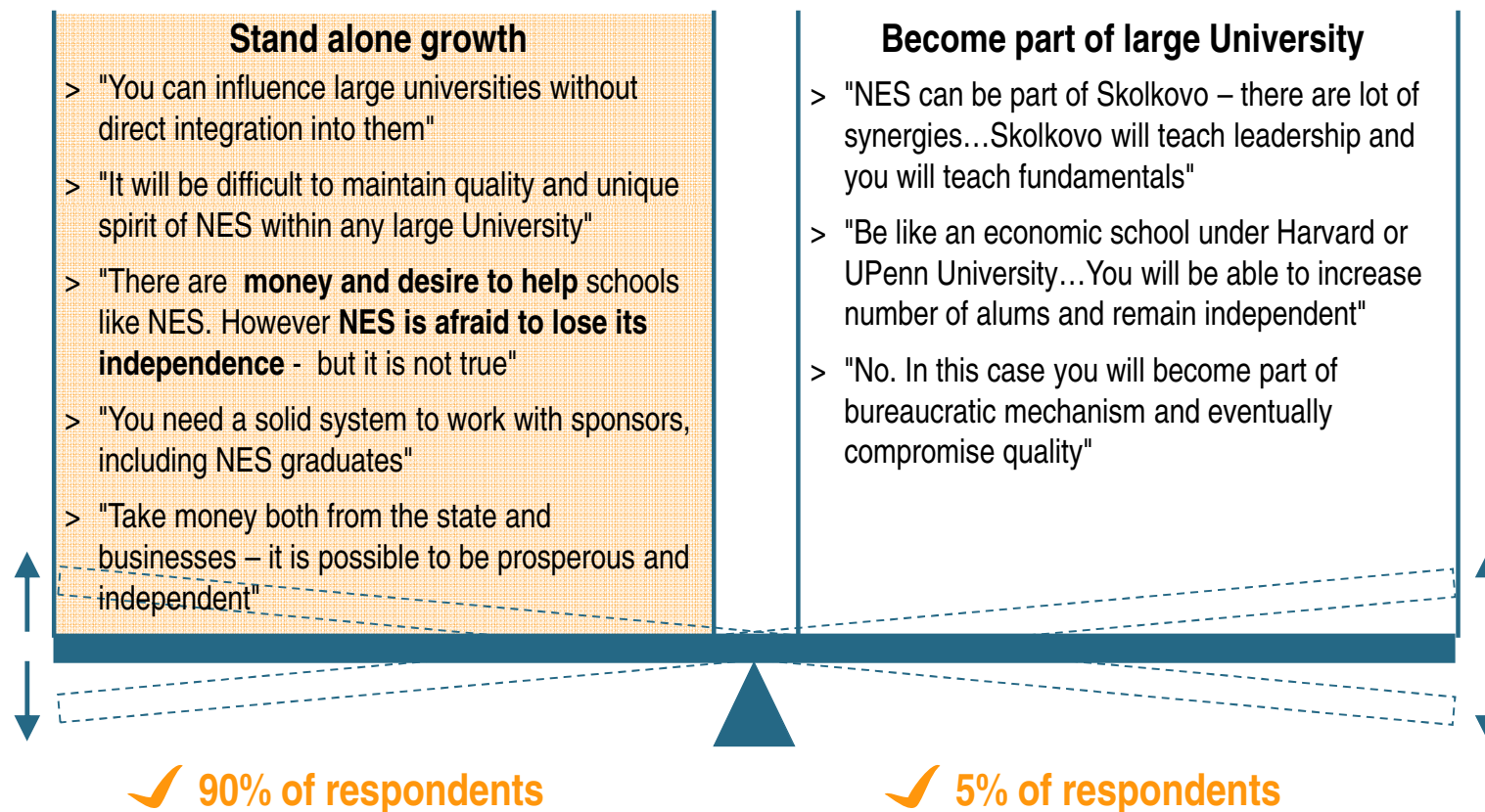
10% OF RESPONDENTS

"NES would benefit from attracting foreign students"

"Create alliance with a Western University"

Growth requires more funds, stakeholders believe NES should grow organically by increasing its endowment fund

Approach to accomplishing strategic priorities – funding, part of large University





C. Market analysis

Demand for economists is strong, applicants' quality continues worsening, competition becomes more fierce

Market analysis summary

- > Number of students in Russia has been declining and likely to decrease by 30-40% in the next 2-3 years
 - NES will face the problem of mediocre applicant pool for its master's programs due to worsening quality of bachelor programs
 - In case of launching its undergraduate program, NES will be in tight competition for top talent with other Russian Universities, most of which already have strong ties with schools

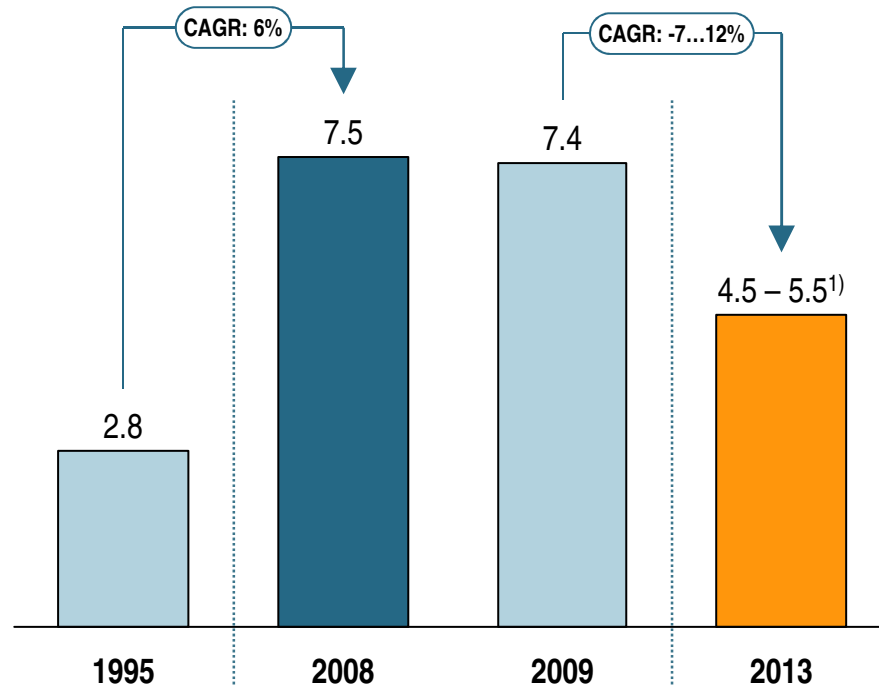
- > Economics is popular, demand for economists is also high and stable

- > More than 500 Universities offer programs in economics, competition is going to become more fierce
- > The main competitor for NES is HSE which offers full range of economics related specializations
 - The only way for NES to position itself as school with the best economics program in Russia

Number of students in Russia has been declining and likely to decrease by 30-40% in the next 2-3 years

Students in Russia [mln]

ACTUAL HEADCOUNT OF STUDENTS AND FORECAST

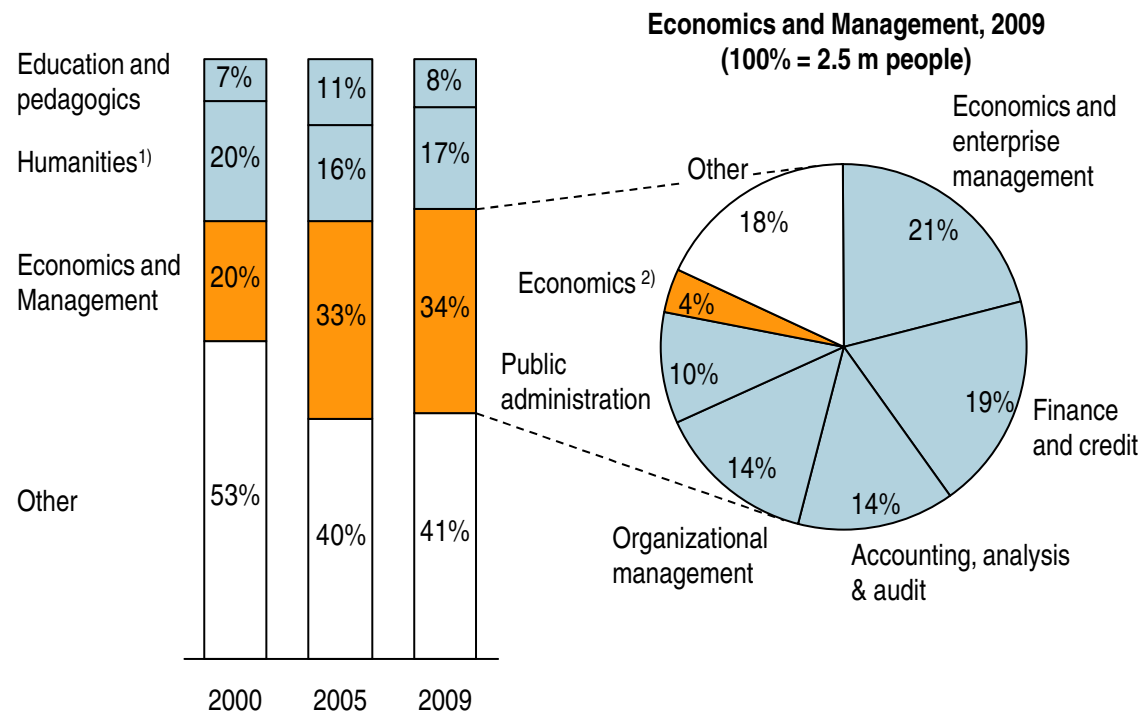


COMMENTS

- > Number of students reached its peak in 2008 and since then it was gradually declining
- > In this scenario quality of applicants will drop significantly and Universities will face tough competition for top talents
- > Most like it's going to be competition on price between most of the Universities (except brands like MSU), so State Institutions will have significant advantage
- > NES will face problem of mediocre applicants pool for its master's programs due to worsening quality of bachelor programs and tighter competition for bachelor graduates from business

Economics is popular, demand for economists is also high and stable

STUDENTS BY SPECIALIZATION



1) Including law

2) The Economics includes Economic theory, Global economy, National economy, Math. methods in economics

COMMENTS

- > Currently, around 2.5 m students study economics in Russia, around 75,000 study Economics
- > Despite large number of economics students, demand for economists is persistently high

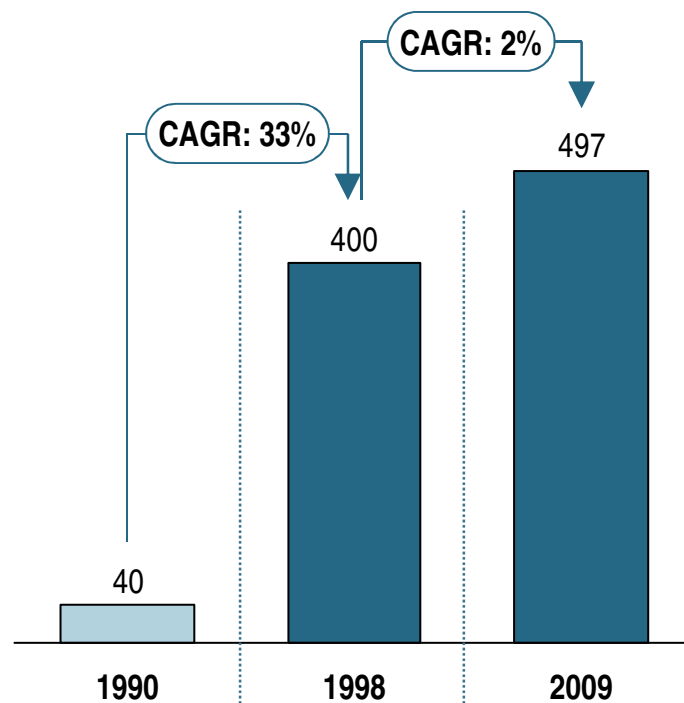
"In Russia there are enough positions to be taken by newly educated economists: e.g. in Moscow and St. Petersburg such positions are taken by non-qualified personnel for 2/3. Only in these two cities annual demand for economists will be stable at the level of 7,000 people" (Y.I.Kuzminov, Rector of HSE)

"Demand for economists, finance specialists, accountants, auditors, tax specialists, as well as other specialists in this field will remain high for a long time" (N.P.Gusakov, dean of Economic Faculty of PFUR)

Supply in field of economic education is very high – around 500 Universities

Economic universities in Russia

QUANTITY OF ECONOMIC UNIVERSITIES



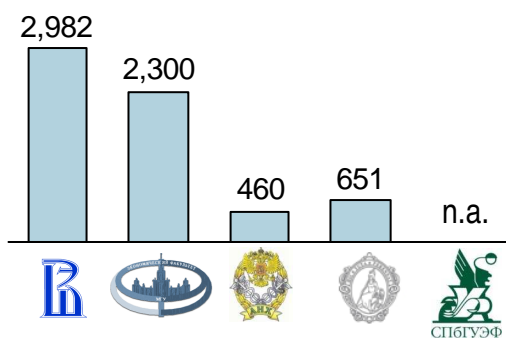
COMMENTS

- > **Quantity does not make quality:** Top 20% Economics Departments rating dd. February 2010 does not mention Russian Universities
- > For our purpose, it is reasonable to separate 2 groups of economic Universities:
 - "Theoretical" – high focus on studying theoretical economic courses, mathematics (e.g. economic department of Moscow State University, HSE)
 - "Applied" – education is focused on specific business areas (e.g. SUM)

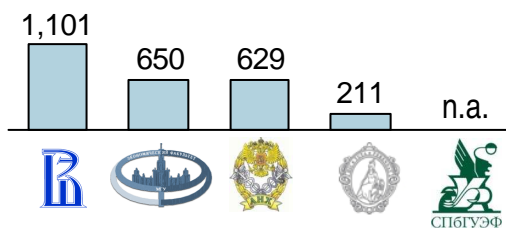
1) According to Top 20% Economics Departments rating (February, 2010)

There are five leaders in field of "classic" economic education

BACHELOR STUDENTS¹⁾



MASTER STUDENTS¹⁾



University	Pass score ²⁾	# of Exams (ЕГЭ)	Applicants per place ³⁾ (2009)	Cost of study ['000 rub p.a.]	Subsidiaries
	81 – 90	3 – 4	25 - 49	Б: 300-400 M: 200-280 ⁴⁾	<ul style="list-style-type: none"> St Petersburg Perm N. Novgorod
	83	3	11	Б: 262 M: 250	<ul style="list-style-type: none"> Pushino Севастополь Astana Baku Dushanbe
	56 – 81	3	15 – 105	Б: 262 M: 250	<ul style="list-style-type: none"> Krasnogorsk
	71 – 82	3 + math	9	Б: 300 M: 300	<ul style="list-style-type: none"> No
	н.д.	3	45	Б: 150-186 M: 125	<ul style="list-style-type: none"> Murmansk Pskov Novgorod

1) Only economics and management (except AHX)

3) Only budget

Source: university data

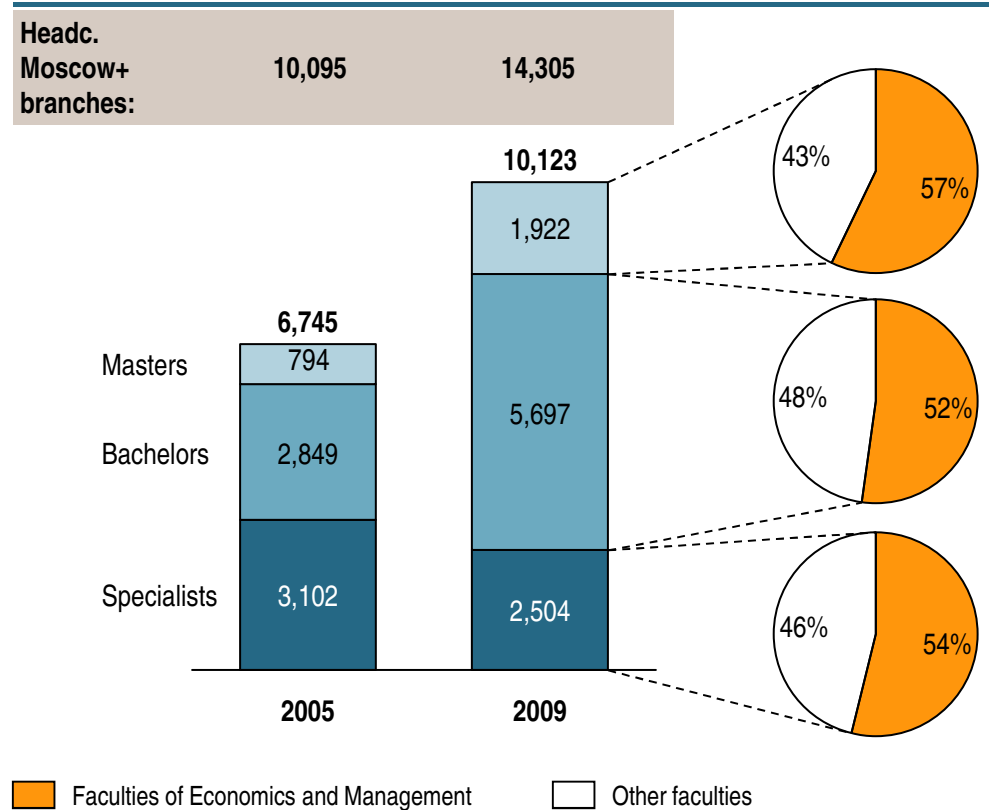
2) Average per exam, 2009

4) Б – bachelor, M – master, A – PhD

Main competitor – HSE, it has achieved significant results during 18 years since founding

HSE key facts

HEADCOUNT OF STUDENTS (MOSCOW)



COURSES

- > Faculty of pre-higher education
- > Bachelor's program (since 1992)
- > Master's program (since 1993)
- > 21 faculties of second and business education
 - MBA
 - DBA
 - Second univ. degree
 - Professional retraining
 - Qualification improvement

FACILITIES

- > 26 buildings in Moscow
- > 11 hostels



ACHIEVEMENTS

- > 4th place in rating of economic universities of Russia (Ministry for Education)
- > 1st place in rating of wages of graduates (2007)
- > 3 branches in Russia – St. Petersburg, Perm, Nizhny Novgorod
- > 26 research institutes and centers, 35 labs

HSE offers 7 bachelor's and 9 master's programs in field of economics and management

Faculties and bachelor's and master's programs



BACHELORS			MASTERS	
Faculty	Pass score, 2009 (USE) ²⁾	Learning cost (p.a.)	Program	Learning cost (p.a.)
Public Administration	331	RUB 250,000	Master's programs for general economics	
Management	327	RUB 330,000	Economics	RUB 200-280 k
Logistics	267	RUB 275,000	> Public finance	
World Economy and Intern. Affairs	341	RUB 400,000	> Institutional economics	
Economics	341	RUB 300,000	> History and methodology of economics	
Statistics, Data Analysis, Demography	320	RUB 200,000	> Macroeconomics and macroeconomic policy	
International College of Economics and Finance	<i>Rating system</i>	RUB 100 – 400 k ¹⁾	> Microeconomic models and microeconomic policy	
			> Socioeconomics and goodwill mgmt.	
			> Labor economics	
			Mathematical methods of economy analysis	RUB 200,000
			Master's programs for finance	
			Fin. markets and fin. institutions (3 prof.)	RUB 250,000
			Strategic management of corporate finance	
			For-profit practice-oriented programs	
			Stock market and investments	RUB 250,000
			Corporate finance	
			Risk management, insurance and actuarial science	
			Finance new	
			MPA – Master of Public Administration	RUB 213,000

1) Learning cost depends on the place in the university's rating

2) Unified State Exam; depends on quantity of exams, not more than 100 points each

Source: university data

Economics and management as a priority direction of HSE research: 7 laboratories and a lot of partners

R&D areas at HSE (Economics and Management)



POSTGRADUATE

- > Post-graduate studies are offered since 1995
- > Specializations:
 - Economic theory,
 - Economics and management of the national economy (by industries and business areas, incl.: Economics, organization and management of enterprises, industries, complexes; labor economics)
 - Finance, cash flows and credit,
 - Accounting, statistics
 - Mathematical and instrumental methods of economics
 - Social structure, social institutes and processes

RESEARCH AND DEVELOPMENT LABORATORIES

Laboratory	Year	International partners
Laboratory for Institutional Analysis of Economic Reforms	2005	
Laboratory for Inflation and Economic Growth Problems Studies		
Laboratory for Labour Market Studies	2007	
Laboratory for Corporate Finance		
Laboratory for Macroeconomic Analysis		<ul style="list-style-type: none"> > R&D center "Eureka" of Paris-1 University, Pantheon-Sorbonne > Central Bank of Russia > Ministry of econ. development & trade > New Economic School
Laboratory for Financial Engineering and Risk Management	2007	<ul style="list-style-type: none"> > Professional Risk Managers' International Association (PRMIA) > European Federation of Financial Analysts Societies – European Bond Commission (EFFAS-EBC) > China Government Securities Depository Trust Clearing Co. (CGSDTC)
Laboratory for Experimental and Behavioral Economics	2009	

INDICATORS¹⁾ (2008)

- > Employees of HSE engaged in research activities: **931**
- > R&D financing volume: **RUB 992.9 m**
- > Scientific publications in Russian and foreign periodicals: **746**
- > Scientific monographs published by Russian and foreign publishers: **629**

1) Overall for HSE (not just Economics and Management)

Source: university data

HSE have large selection of international partners worldwide for student exchange

International partners¹⁾



DOUBLE DEGREES



TRAININGS

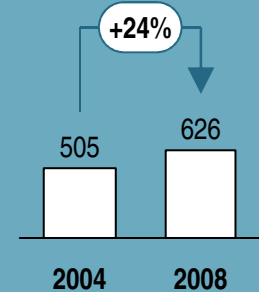


POST-GRADUATE STUDIES

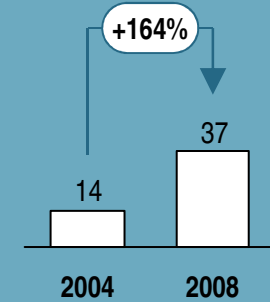


INDICATORS

> Students – participants of programs (double degrees, basic educational programs)



> Teachers – participants (foreign trainings)



1) Only for faculties of economics and management

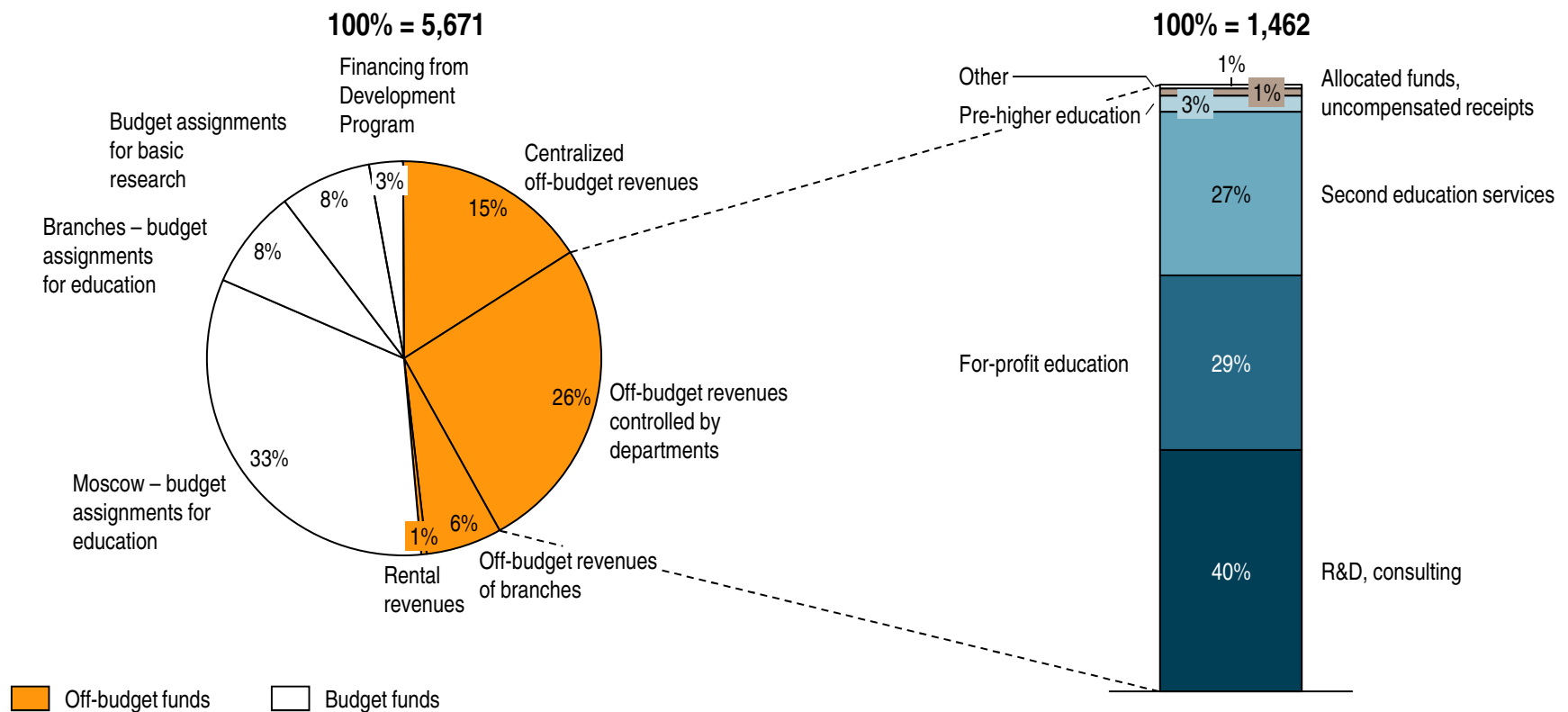
The state finances 52% of HSE costs, other revenue comes from R&D, consulting, and for-profit education

Structure of HSE revenues in 2009



HSE FINANCING STRUCTURE [RUB M]

OFF-BUDGET REVENUES [RUB M]





D. Survey of Russians studied abroad

Western education is perceived superior to the Russian, however it doesn't consider Russian realities

Student survey summary

- > Education is an investment for students – when choosing university they pay biggest attention to quality and reputation of the school

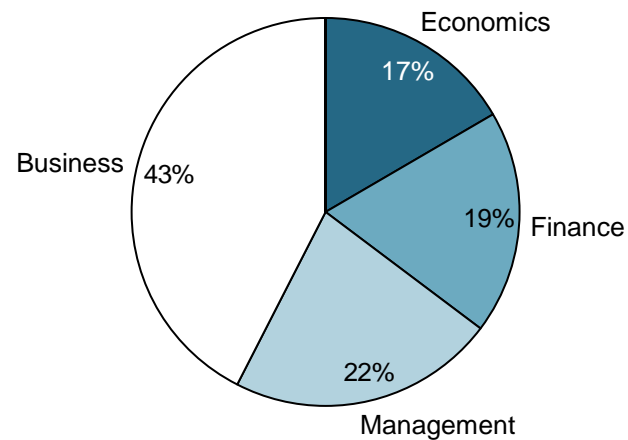
- > In eyes of surveyed students, Russian education is low quality, outdated, too theoretical and offers limited additional possibilities for students.
 - It is difficult for NES to compete with Western Universities since the latter are perceived superior to any Russian Universities
 - NES should think about partnerships with Western Universities and exchange programs

- > Western education often doesn't consider the "realities" of Russian economy – big issue for graduates who plans to return to Russia
 - NES can use this to position itself as best new Russian education

We surveyed 82 Russian students and graduates of Western Universities

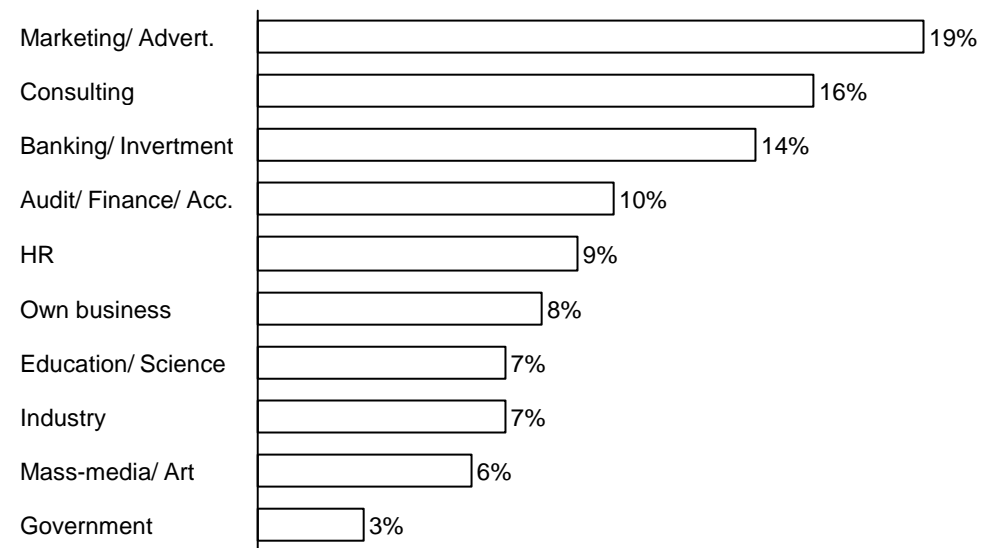
Summary on research

What did (do) you study?



Students: 8%
Alumni: 92%

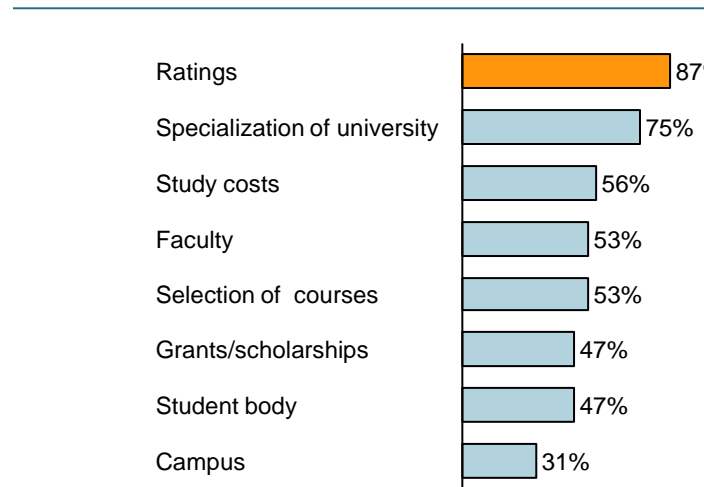
Where do you work?



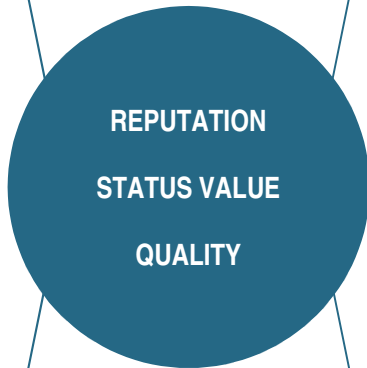
Key criteria for university selection – status and high quality; also main reasons for studying abroad

University selection criteria of Russian students

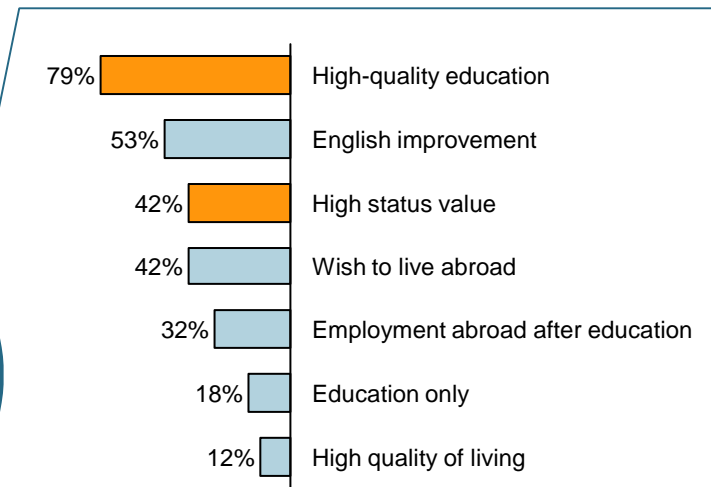
Universty selection criteria



While selecting the university, students primarily **consider its quality and status value** – indicated by position of the university in global ratings...



Reasons to choose education abroad



...confirmed by reasons for choosing foreign universities – **thrive for high-quality education and high status value** is in Top 3 of reasons

According to respondents, Russian education is not considered as either qualitative, or prestigious

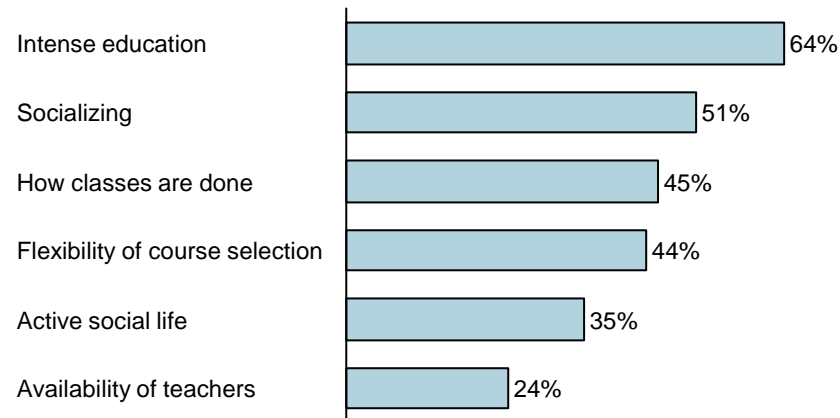
Question:

COUNT MAIN CHARACTERISTICS LACKING AT RUSSIAN UNIVERSITIES

QUALITY	66%	<ul style="list-style-type: none"> • Poor education quality – courses are out of date, cutting-edge global best practices are not considered, Western courses are taught without adaptation to Russian specifics • Most teachers do not have business experience; there are many aged teachers with obsolete insights
LEARNING PROCESS	62%	<ul style="list-style-type: none"> • Courses are too theoretical – no cases, examples, international experience; it is not possible to select courses • Limited opportunities for self-education and access to educational resources • Low requirements to students
OPPORTUNITIES FOR STUDENTS	34%	<ul style="list-style-type: none"> • Often obsolete infrastructure (or there is none at all) • Limited selection of international programs and grants • There is no system of communications with employers – and, respectively, no practical experience during learning and no employment guaranteed
UNIVERSITY LEVEL	34%	<ul style="list-style-type: none"> • Diplomas of the majority of Russian Universities are not acknowledged worldwide • There are virtually no foreign students and teachers in Universities • No resilient traditions • Weak scientific base and no international reputation
LEARNING IN RUSSIA	18%	<ul style="list-style-type: none"> • Extreme corruption of education – both at matriculation and during learning • Unsatisfactory student contingent – low motivation, limited area of thought

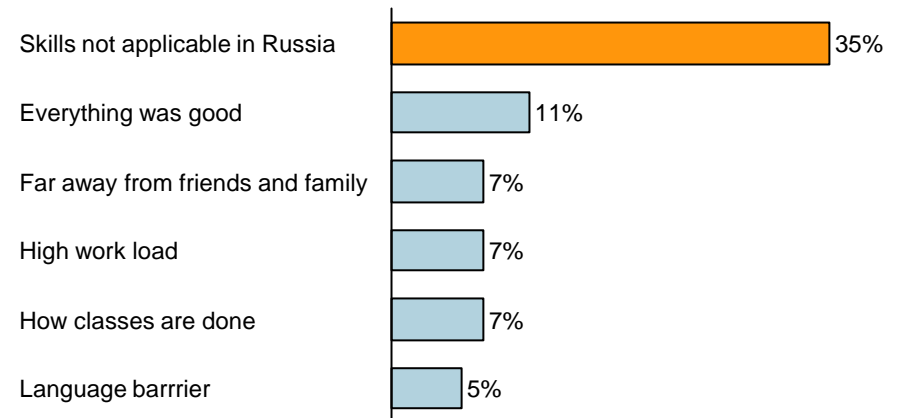
Survey also showed main advantages and disadvantages of education abroad

What did you like most of all?



- The most attractive factors again confirm their significance while choosing a university, and actually overlap areas, where Russian universities have disadvantages

What did you not like?



- The only significant weakness indicated, Russian Universities are capable to position as Schools that are very close to real business and public issues in Russia



E. Survey of NES graduates

NES graduates support the mission, call for more curriculum flexibility and want to be involved in School's life

NES graduates survey summary

- > Majority of the surveyed graduates believe that the school proceeds well with its mission and are overall satisfied with quality of their education

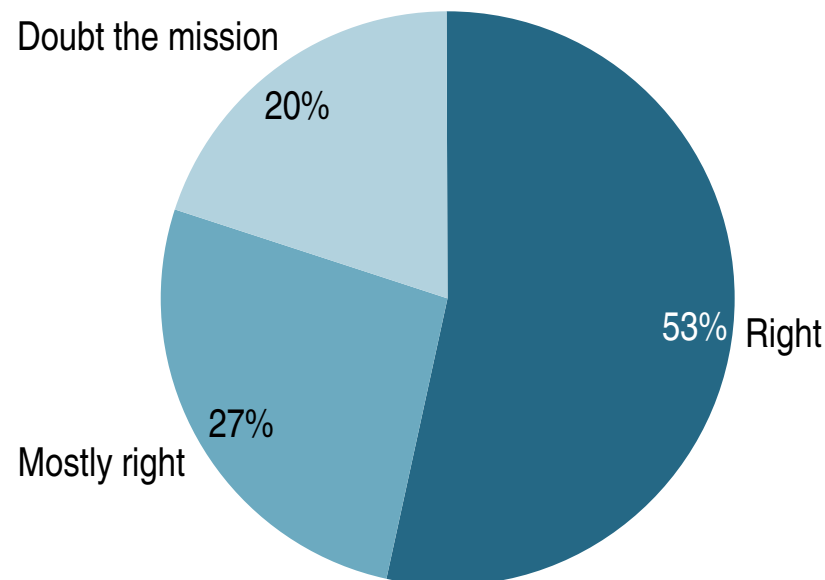
- > Graduates think that curriculum should be more flexible, less theoretical and give opportunity to take wider variety of classes

- > Majority of graduates think that NES should improve alumni relations
 - Graduates want to be involved in School's further development
 - Graduates are willing to donate money to NES
 - Graduates need more networking opportunities with others

Majority of the surveyed graduates believe that the school proceeds well with its mission

The breakdown of graduates satisfied with the school's mission

Q: Is the mission formulated right?



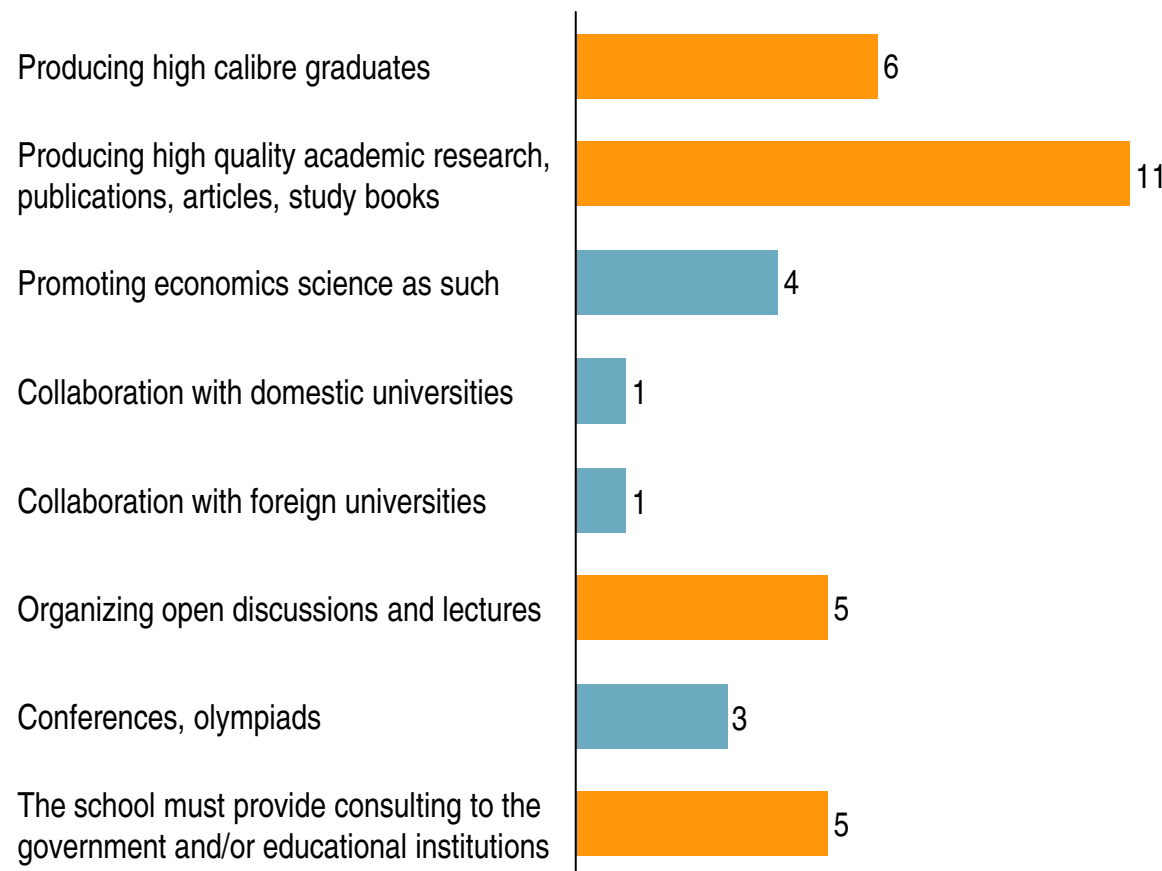
Total number of respondents: 15

Interview quotes

- > "The main achievement is that lots of NES graduates who have done a western PhD come back or at least teach here"
- > "I am very much pleased with the NES program that I have attended with an exception of a couple of disciplines"
- > "I believe that NES has an important mission of "re-freshing" the Russian academic society"
- > "I can hardly understand the current mission since its expected results and the mechanisms to achieve those are not clear"

Graduates want NES produce relevant and practical research for the state and to be a role model for other Universities

Question: What are the most effective ways to accomplish the mission? [# of answers]

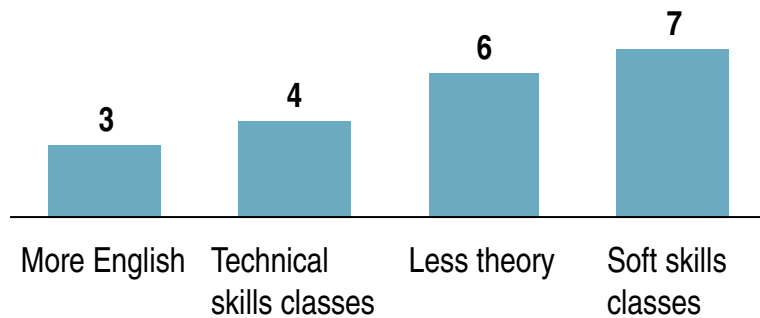


Interview quotes

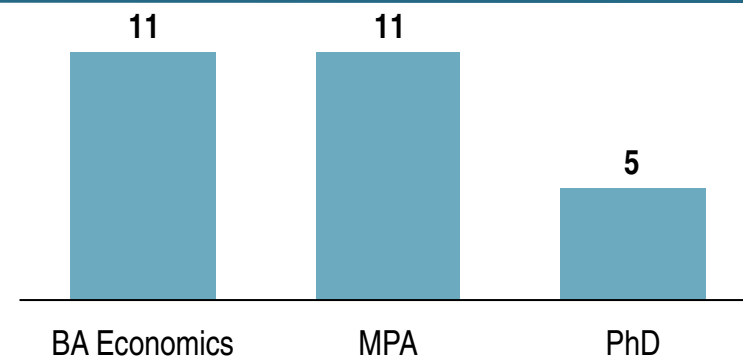
- > "NES can help Russian public policy making by offering relevant research and potential solutions, in such way that people responsible for making decisions can actually understand and apply them in real life"
- > "NES' reasearch is too far away from needs of private and public sectors. The school should be able to talk to the business and government in simple and understandable manner"
- > "Be a role model for other Universities by producing high quality grafuates and by collaborating economists from other Universities"

Majority of graduates agree with new BA and MPA programs, need more practical classes and stronger alumni network

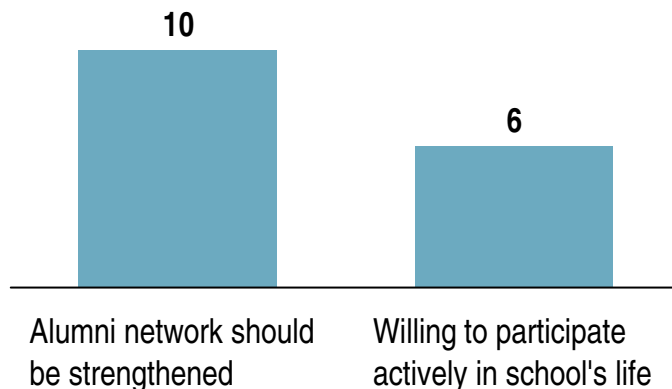
"What's more needed in curriculum [no. of respondents]"



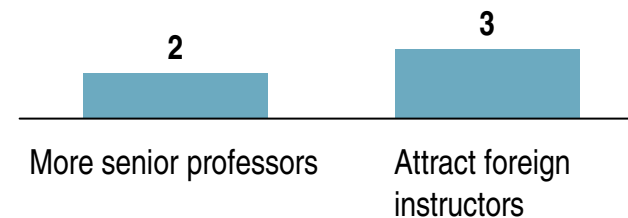
New academic programs [no. of respondents]



Alumni network [no. of respondents]



Faculty improvements [no. of respondents]

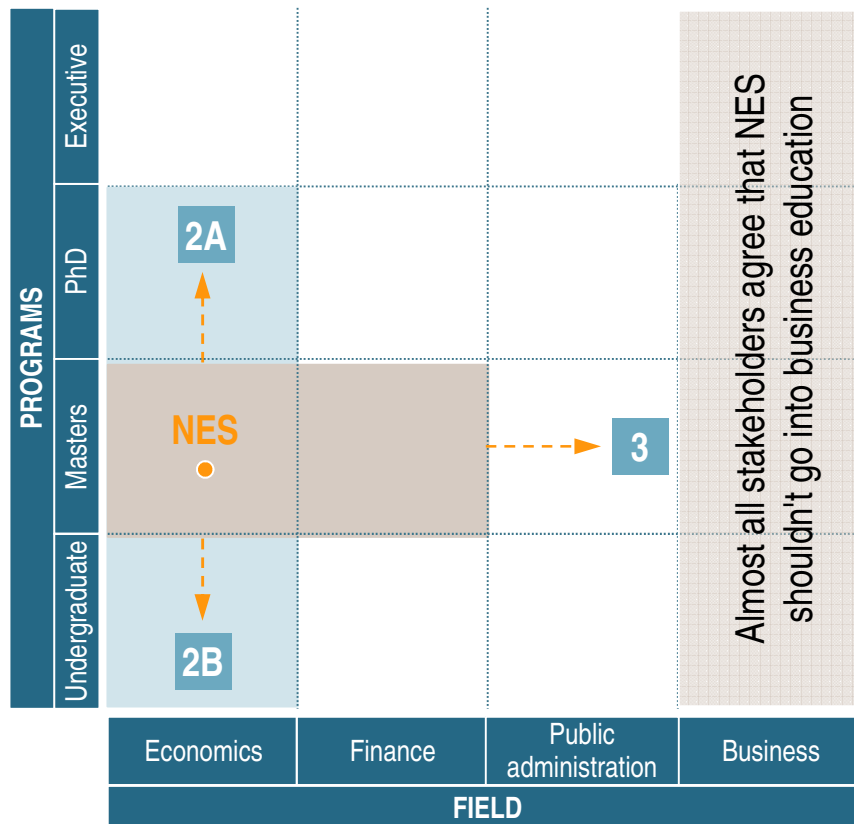




F. Strategic options

There are three main options for the further development

Overview of strategic options



- 0 STATUS QUO**

NES remains within its current master programs, with an option of increasing size of classes
- 1 FULL SCALE ECONOMIC UNIVERSITY**

NES starts its own PhD and undergraduate programs to become an economics University
- 2 SCHOOL OF GRADUATE STUDIES**

NES offers range of economics and finance related master's programs, possibly starts MPA in the future

Each option has its supporters and opponents among stakeholders

Stakeholder opinions on different growth options

OPTIONS

VOICES FOR

VOICES AGAINST

STATUS QUO

"Current size means quality"

"Current model is not sustainable"

"Risk to remain small and beautiful"

"Limited impact due to school's size"

FULL SCALE ECONOMICS UNIVERSITY

"Own undergraduate program can be good source for the masters program"

"NES doesn't have resources to setup undergraduate program "

"Without undergrad program, NES is a niche player"

"NES won't be able to control quality of its undergraduate program"

"Definitely PhD yes, but you need to have senior faculty and developed academic market for its graduates"

SCHOOL OF GRADUATE STUDIES

"Use your capabilities and resources to expand programs without any significant risk of failure (e.g. in case of opening BA program)"

"Without own undergraduate program it is difficult to maintain quality of the master's programs"

"Educate those who do or will do policy"

This option assumes no significant changes in the next 5 years

Overview of Option 1 – "Status quo"

OPTION 1: STATUS QUO

- > Offered programs: MA in Economics, Masters in Finance
- > Target school size 200 – 250 students
- > Main source of visibility and impact – high quality research

DESCRIPTION

- > NES continues pursuing its current business model offering masters programs in economics and finance
- > School can grow insignificantly within existing academic programs
- > NES can continue use current campus and facilities

IMPLICATIONS

- > NES can consider existing resources (faculty, campus, facilities) enough for the future
- > Main focus would be maintaining or even improving quality of teaching and research
- > NES would rely in this option on existing circle of donors and supporters

RISKS

- > "Risk of remaining small and beautiful"
- > No real impact on education, public policy and private sector
- > Current business model is not sustainable – problems with funding or leave of key managers/professors may risk existence of NES

There are some examples of small economics schools, but none of them are "standalone" or exist for a long time

Overview of small economic schools in Europe

Name of the school	Foundation year	Number of students	Comments	Path
University of Bruchsal, Germany	1998	200	Closed in 2009 due to financial problems - no more sponsors and foundations found	Closed
Stuttgart Institute of Management and Technology (SIMT), Germany	1998	281	Closed in 2008 due to financial problems - no more sponsors and foundations found	
SRH School of Logistics and Economics, Germany	2005	250	Started as member of SRH Group ¹⁾ , consisting of many colleges and universities in Germany	Became of part of large group or university
SRH Calw University, Germany	2001	250	2005 entered the SRH Group	
SRH Berlin University, Germany	2002	220	2005 entered the SRH Group	
CERGE-EI, Czech Republic	1991	138	Is a joint workplace of the Center for Economic Research and Graduate Education of Charles University in Prague and the Economics Institute of the Academy of Sciences of the Czech Republic. Is financed by grants from Czech government and private donations	
FOM School of Economics and Management, Germany	1993	15,000	FOM started 1994 with 149 students in Essen, in 1998 it started to open new schools in other German cities. Now it has 20 schools, some of them work in cooperation with Universities	Expanded

1) SRH – Stiftung Rehabilitation Heidelberg (Foundation Rehabilitation Heidelberg)

One of few examples is CERGE-EI, small "boutique" PhD in Economics; main financing comes from the state

School overview

Our original mission is to provide economists for post-soviet world

Current education fields in CERGE-EI

Executive education				
PhD				
Master				
Bachelor				
	Economics	Finance	Business	PA

Students: 150
Share of international: n.a. (mostly international)

Comments

EDUCATION AND PLANS

- CERGE-EI is a small "boutique" PhD program – no bachelor and master level education by now; no deep specialization – cover the whole field
- There are some plans to start master-level education in cooperation with a Czech university partner

STUDENTS AND PROFESSORS

- International focus of the program, preparation semester to choose who is ready, no special requirements on previous education
- Choosing professors based on anonymous market research – quality takes precedence over any other considerations

RESEARCH

- Faculty choose their own topics and their contracts call for publication output – government projects are marginal (on individual basis)

FINANCING

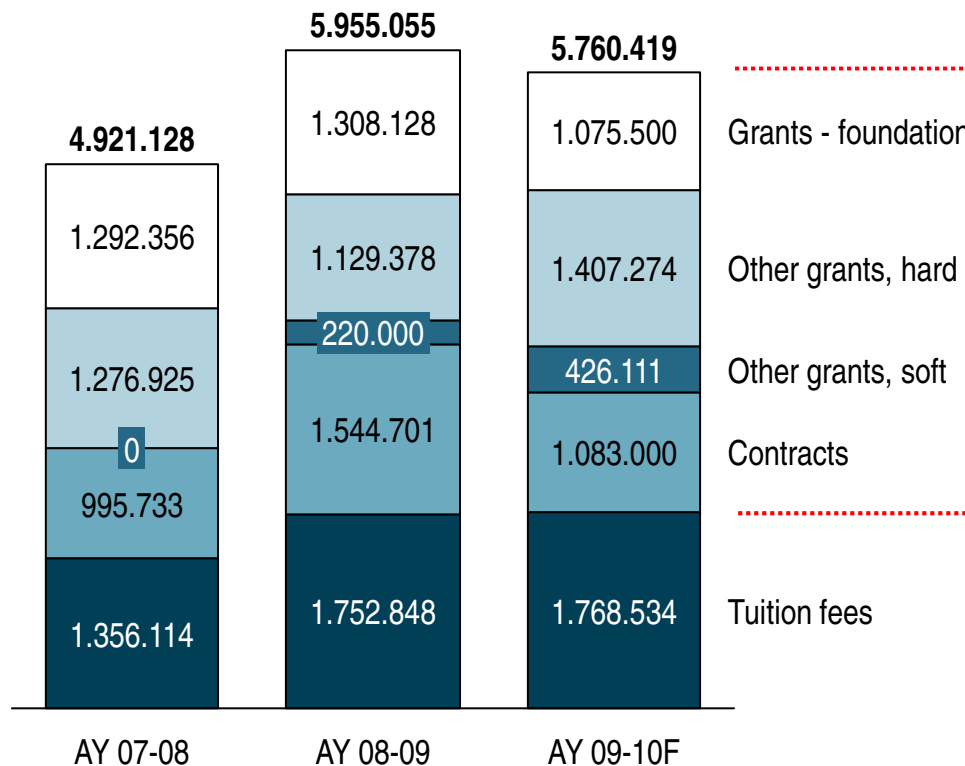
- Main budget comes from the state, second is the own revenue generating programs (study abroad, Teaching Fellows etc.), corporate fundraising is the third

1) Faculty of Economics, Business Administration and Information Technology

In this option, business model is not sustainable; losing contract/donor can threaten School's budget

Overview of NES operating revenue

NES OPERATING REVENUE 2007 -2010, [USD]







COMMENTS

- > More than 70% of revenue comes from grants and contracts
- > Fluctuations from year to year may indicate not sustainability of these grants and contracts
- > These revenues depend heavily on personal connections

Option 1 is feasible, but not enough to accomplish the mission in full and might be risky

Option 1 summary

CRITERIA	SCORE ¹⁾	COMMENTS
Relevance to mission		Small size limits NES impact on public and private sectors
Feasibility (funding, internal resources)		Existing resources satisfy option 1
Market demand		Applicants are interested in NES
Business model sustainability		Business model is not sustainable, NES can fall short of founding due to loss of donor/contracts Few examples of such models in the world

1) Full ball is maximum score, empty ball is low score
 Source: Roland Berger analysis

Option 2: Expansion in master's programs in areas related to economics, potential start of MPA program

Overview of Option 2 – "School of graduate studies"

OPTION 2: School of graduate studies

- > Offered programs: MA in Economics and Masters in Finance (with different specializations), in the future MPA
- > Target school size 300 – 500 students

DESCRIPTION

- > This option means further focus on public sector and its needs:
 - > Preparation of graduates for government both on federal and regional levels
 - > Short term courses for public sector
 - > Research focused on actual topics for the state
 - > Probably joint program with Western University (e.g. Kennedy School)

IMPLICATIONS

- > NES can implement Option 2 by offering different specializations in the existing programs
- > NES would need new competences and new faculty
- > In case of opening MPA, the option would imply state funding and some degree of dependence from the state

RISKS

- > Some stakeholders wouldn't agree with more public sector focus
- > New competences require extensive hiring and new facilities – risk of lack of funding
- > NES would become very dependent on quality of the existing undergraduate education in Russia

An example of such model is CEU, graduate institution with ambitious plans for further development

CEU overview

We shift from an institution focused on the region to an international university

Current education fields in CEU

Executive education				
PhD	■			
Master	■		■	■
Bachelor				
	Economics	Finance	Business	PA

Students: 1 600
Share of international: n.a. (mostly international – 100 countries)

Comments

EDUCATION AND PLANS

- Big plans for upcoming years – establishing of the new international school of public policy; adding new programs to the curriculum

STUDENTS

- To choose the strongest some departments interview the candidates as a part of selection process

RESEARCH

- CEU is a research-intensive university with strong focus on academic research – faculty members devote at least a half of their time to research including through participation in European and international projects

FINANCING

- CEU is the exclusive beneficiary of a permanent endowment fund (founded in 2000 by Mr. Soros, now has 880 m USD – one of the largest academic endowments in Europe): it gives 79% of the budget
- Other revenues come from tuition and student fees (4%), special, outreach and research projects (7%) and other minor sources

1) Faculty of Economics, Business Administration and Information Technology

School of graduate studies is a natural way of development which incorporates existing capabilities

Option 2 prerequisites and logic

PREREQUISITES

> **NES graduates call for more optionality in the second year**

- "NES should have more flexibility in classes selection, should be more potential paths in the second year"
- "More soft skill classes"
- "More practical classes"

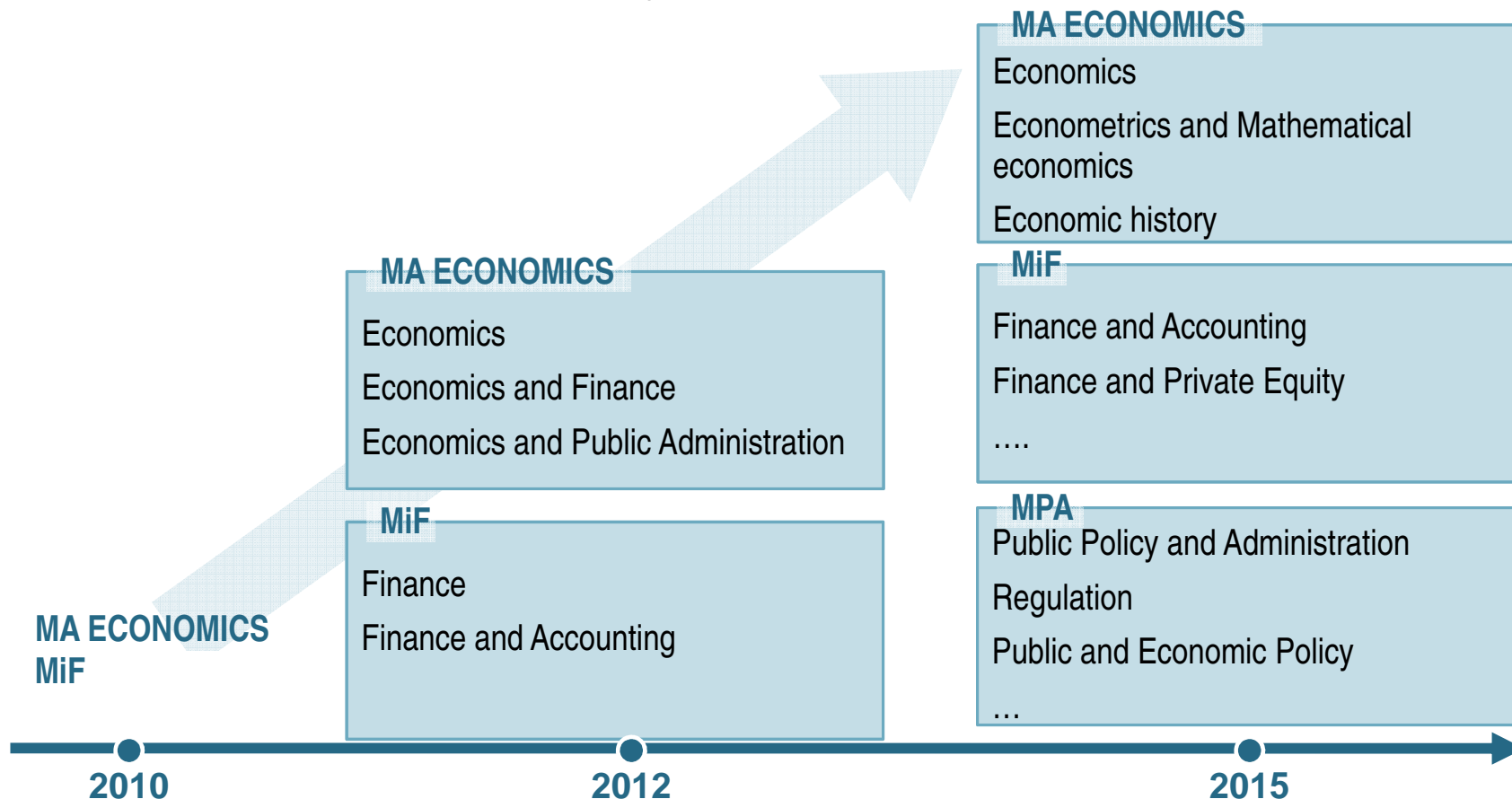
> **Market demand for high quality graduate programs, especially in Public Administration**

LOGIC BEHIND THE OPTION

- > NES has competences and resources to develop new graduate programs
- > Launch of MPA could allow strengthen NES' impact on public policy (both in terms of research and graduates)
- > Option 2 can be developed in the organic growth way
 - Start offering new classes within the existing classes
 - Develop 3-4 specializations within MAE and MiF (e.g. economics and public administration, economics and finance, ...)
 - Build capabilities in these areas
 - Expand into new programs (e.g. Public Administration)

By increasing specialization within existing programs NES can grow number offered programs

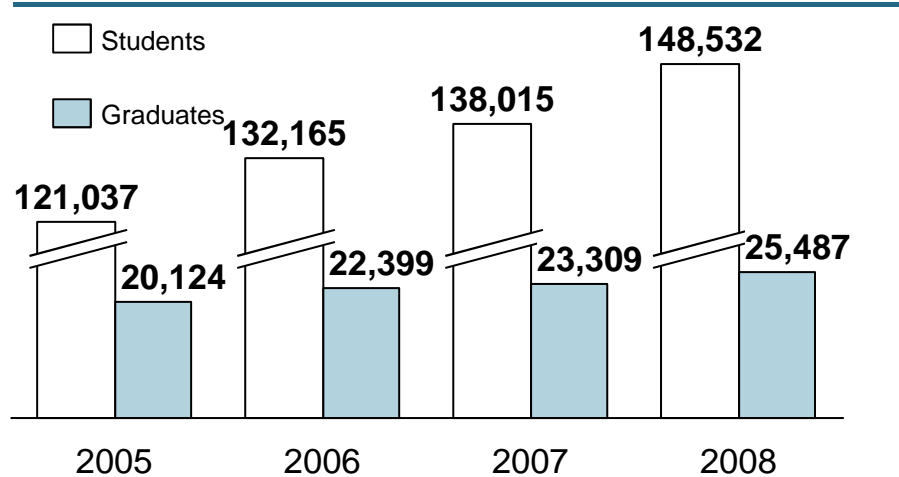
Example of possible expansion way



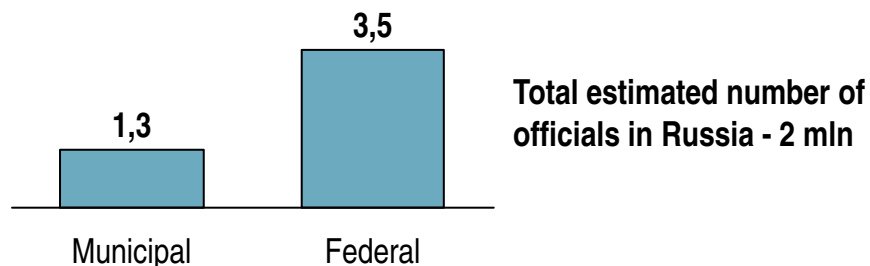
Public Administration is in demand both from students and the state

Overview of market demand for Public Administration

PA students and graduates in Russia, 2005 - 2008



Percent of Russian officials with relevant education



Comments

- > Federal and regional governmental structures hire around 150 000 - 200 000 professionals
- > Public and municipal administration is very competitive in Russian Universities - from 5 to 12 applications per seat
- > Quality of PA programs in Russia are questionable since there is no or little relevant and up do date books, studies and courses
- > There is demand for short term trainings and courses for officials

More than 100 Universities offer programs in PA, however only a few specialize in this area

Overview of Universities offering programs in Public Administration

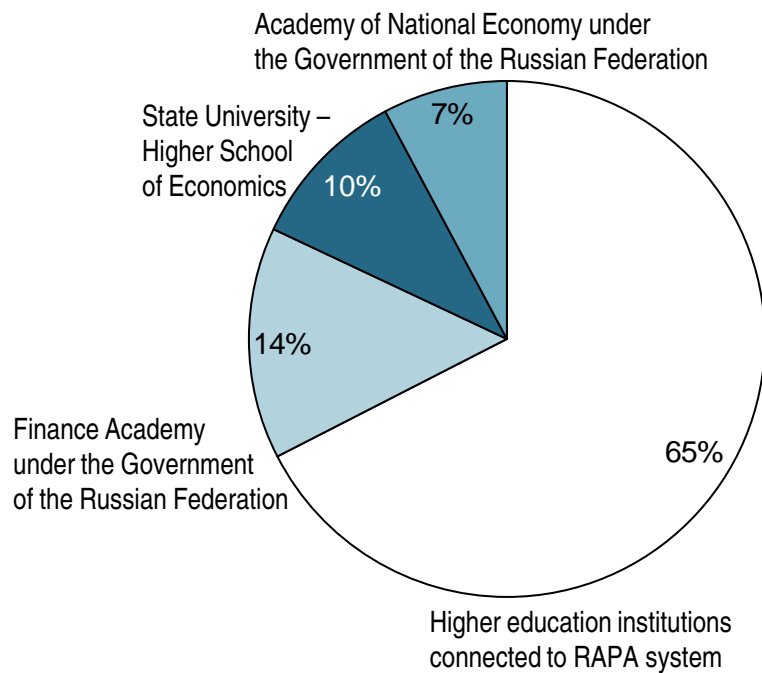
Name of higher education institution	The number of state-funded places/ of contract places for Public Administration program	The number of courses in Public Administration program	Public Administration course tuition fees per annum [RUB]
Russian Academy of Public Administration under the President of the Russian Federation (Moscow) (RAPA)	3/12	69	180,000
Finance Academy under the Government of the Russian Federation	14/27	45	200,000
Volga Region Civil Service Academy (Saratov) (RAPA)	20/40	34	16,000
State University – Higher School of Economics	60/80	32	250,000
North-West Academy of Public Administration (Saint Petersburg) (RAPA)	105/40	31	100,000
North-Caucasus Academy of Federal Service (Rostov-on-Don) (RAPA)	120/43	28	50,000
The Academy of National Economy under the Government of the Russian Federation	n.a.	24	45,000
Ural Academy of Public Administration (Yekaterinburg) (RAPA)	26/50	18	25,350
Orel Regional Academy of Public Service (RAPA)	0/25	16	29,700
Moscow Academy of the State and Municipal Management (RAPA)	n.a.	10	45,000
State University of Management	n.a.	7	60,000
Siberian Academy for Public Administration (Novosibirsk) (RAPA)	101/84	5	65,000
Moscow State Institute of International Relations (University)	27/5	3	265,000
Russian Academy of Customs (Lyubertsy)	n.a.	2	120,000
Russian Foreign Trade Academy of the Ministry for Economic Development of Russia	n.a.	1	180,000
Kuban State University	n.a.	1	60,000
Peoples' Friendship University of Russia	n.a./12	1	54,000

Comments

- Today **ca. 100 higher education institutions** in Russia prepare public sector employees, also in regions:
 - Samara Municipal Institute of Management
 - Kaliningrad State Technical University
 - Irkutsk State Technical University
 - Ural Academy of Public Administration
 - Bashkir Academy of Public Service under the President of Bashkortostan (Ufa)
 - Academy of State Governance under the President of Tatarstan
 - Kursk Institute of State and municipal services
- > Currently Master of Public Administration (MPA) programs are being developed – compliance with state requirements is the key precondition for development of MPA programs

Another very attractive market segment in PA is post graduate classes and trainings for state officials

Distribution of public service training programs between higher education institutions



Comments

- > Russian Academy of Public Administration (RAPA) is main contractor in delivering post graduate seminar and trainings for the state officials
- > RAPA offers 211 learning courses, which is more than 64.5% of the total number of learning courses on the specialty Public Administration and implements 69 training programs
- > Currently applied standard for the specialty Public and Municipal Administration doesn't comply with international level in both composition of training subjects and methodological support of the subjects

Option 2 assumes NES builds on academic strength of undergraduate programs of other Russian Universities

Option 2 implications (illustrative)

NES MARKET POSITIONING







COMMENTS

- > NES can build on academic strength of Russian undergraduate programs by selecting best for its master's programs
- > Relatively small size of NES' programs will continue to ensure high quality of applicants
- > There is no need for further internationalization in this option due to country specific courses (especially if MPA is launched)
- > Strong ties with top Russian employers and practical courses can help NES compete with global brands

Option 2 serves well the mission, feasible and sustainable

Option 2 summary

CRITERIA	SCORE ¹⁾	COMMENTS
Relevance to mission		Impact on public policy, larger scale, role model for other universities, some deviation from an idea of pure economic school
Feasibility (founding, internal resources)		Existing capabilities and resources serve well option needs Still PA program should be created from scratch (western experience is not relevant)
Market demand		Market (applicants, potential employers, the state) is very interested in high quality graduate programs
Business model sustainability		Strong brand, larger alumni base – more opportunities for funding Probably, support from the state Opportunity to launch executive programs

1) Full ball is maximum score, empty ball is low score
 Source: Roland Berger analysis

Option 3: "Classic" way of development for NES– creation of a new economic University

Overview of Option 3 – "Full scale economic University"

OPTION 3: FULL SCALE ECONOMIC SCHOOL

- > Offered programs:
 - BA in Economics
 - MA in Economics
 - Masters in Finance
 - PhD in Economics
- > Target school size 500 – 1000 students

DESCRIPTION

- > NES opens undergraduate and PHD programs in economics (first, with very small size and then growing moderately)
 - > Realization of synergies between three programs (quality of applicants, stronger alumni network, research)
 - > More international focus in education (exchange programs, joint programs)
 - > Focus on research both on topics actual for Russia and global topics

IMPLICATIONS

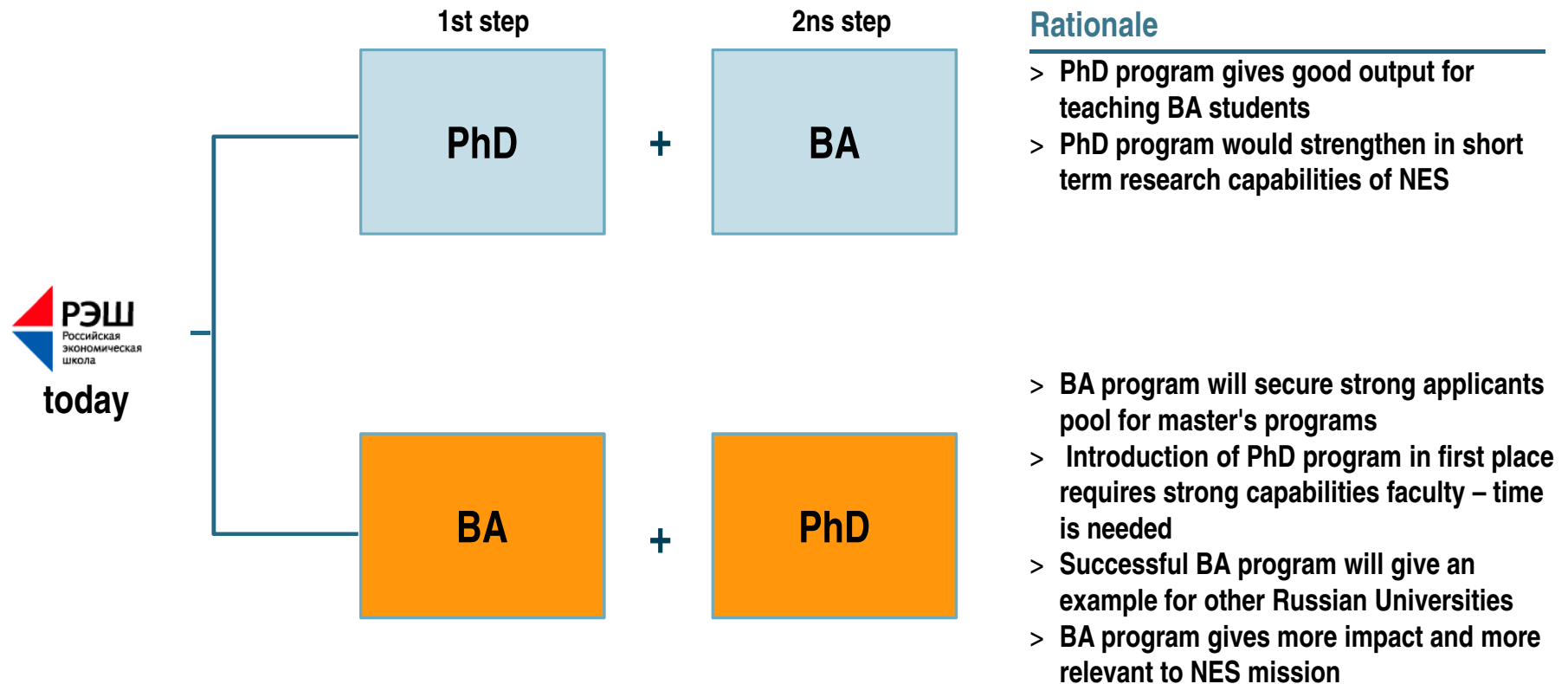
- > NES would need more financing in order to cope with all challenges
 - > New campus
 - > New faculty
 - > New classes (e.g. liberal arts)
- > Quality control would be an issue

RISKS

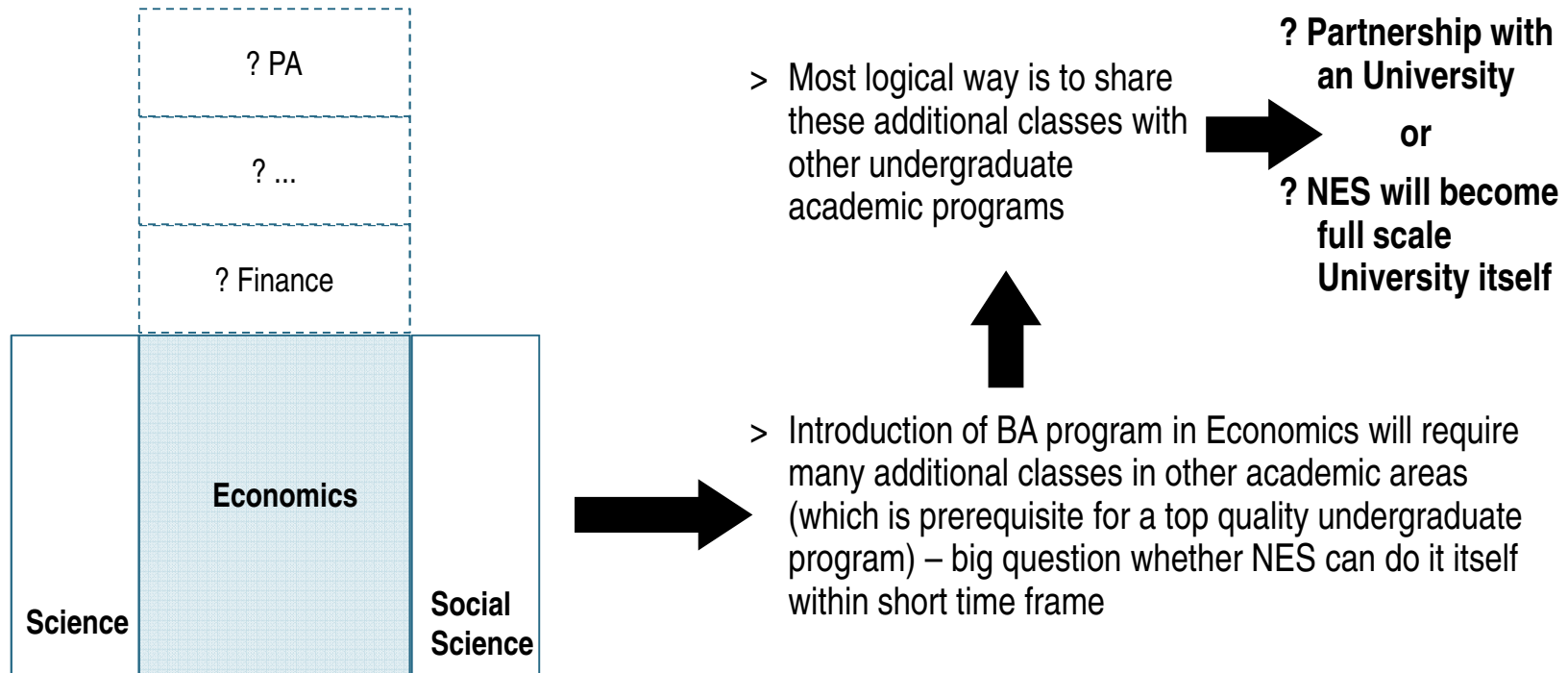
- > Uncontrolled growth can harm quality of graduates, research and School's image
- > Bachelors market is different, NES can be at risk of admitting not right students
- > Faculty and management would be under pressure of meeting new, totally different challenges

Most logical way within the option is to open BA program first

Overview of potential development ways within the option



Launch of BA program in Economics has controversy – additional classes may be too heavy burden for NES



Western schools went way of becoming large Universities - SSE is one of many examples

SSE main educational fields and principles

We are good, but can do better – and that is our main target

Current education fields in SSE

Executive education				
PhD				
Master				
Bachelor				
	Economics	Finance	Business	PA

Students: 1 950
Share of international: 5%

Comments

EDUCATION AND PLANS

- 3 Bachelor programs and 2 Master programs (started this year), PhD programs exists since 1950s and has already graduated over 500 PhDs – currently 3 programs
- **No plans for development of new faculties** – quality in focus; great professors and assistants are the main success factor

STUDENTS AND PROFESSORS

- Department chooses local students with **best results in high school**, international students with **highest GRE score**; special attention is paid to **math background**
- Professors recruiting is organized with support of American Economics Association; main criteria – research results and publications

RESEARCH

- Research and science is in focus: professors **have quite low teaching load**, but they will **be not promoted if they don't succeed in research**
- Mostly academic research – **orders are very minor and are done on private basis**

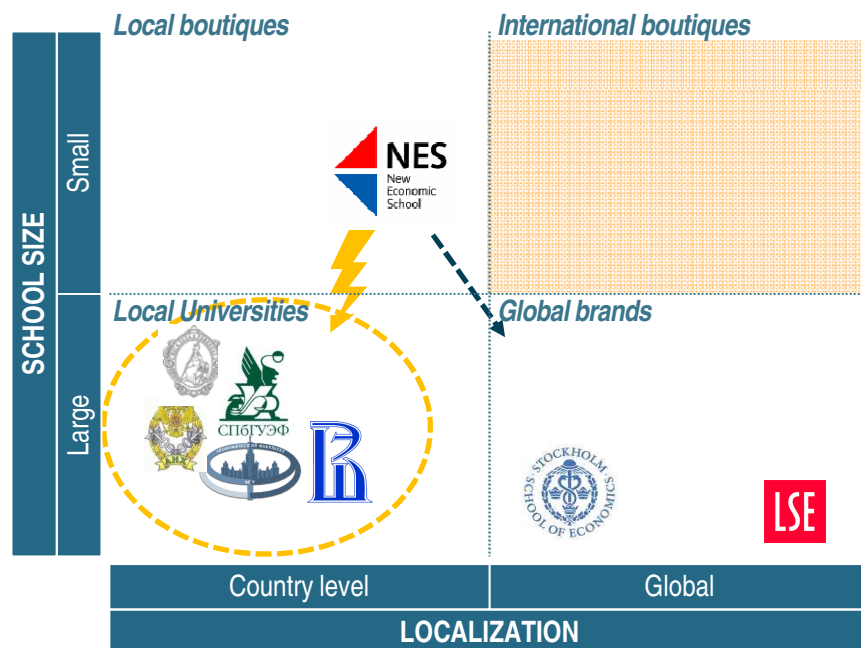
FINANCING

- 21% - government, 40% - SSE association, 11% - other grants, 10% - Corporate and Donor relations, 14% - other donations

NES will need to clearly communicate its selling proposition, otherwise fierce competition with other Russian Universities

Option 3 implications (illustrative)

NES MARKET POSITIONING






COMMENTS

- > After introduction of its undergraduate program, NES will be competing against Russian Universities
- > Decreasing pool of applicants and war for top talents (keeping in mind that other Universities already have ties with schools) will make it difficult for NES to maintain its quality standards
- > NES will need to find ways to re-position itself from Russian Universities
- > Possible solution – make undergraduate program more international through its faculty, exchange programs, etc

Option 3 is most relevant to the mission, complicated in implementation

Option 3 summary

CRITERIA	SCORE ¹⁾	COMMENTS
Relevance to mission		Fits the mission perfectly, serves well all stakeholders
Feasibility (founding, internal resources)		Requires significant efforts, extra funding, risk of worsening quality
Market demand		BA market for economists is very competitive, will be very tight fight for top talents
Business model sustainability		Strong brand, large alumni base – more opportunities for funding Economies of scale works against this option

1) Full ball is maximum score, empty ball is low score
 Source: Roland Berger analysis



F. Next steps

Next steps

- **Choose one option for further analysis**
- **Financial modelling of the chosen option**
- **Develop implementation plan**