HEART(LESS) AI

HUMAN DECISIONS, MACHINE ERRORS

MANIPULATING AND WINNING LUCK

HEART(LESS) AI
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The theme of this issue is decision making. As an international business school and educator of current and future business leaders, we see decision making as a vital part of the curriculum as well as an important topic of research. As a growing and living organization, we face many of the same questions as the companies from which our participants come. Just like them, we make strategic decisions that affect our future path and goals, especially around digitalization.

In 2018 we decided to join forces with the business schools BI Norwegian, EDHEC, IE, Imperial, Ivey, Singapore Management University, and the University of Melbourne to transform the future of management education through a new technology platform. The shared vision of this Future of Management Education Alliance (FOME) is that online learning should have the same transformational impact as courses taught in a physical classroom. FOME enables extensive collaboration, bringing together faculty, senior management, project managers, learning designers, and media experts to co-create a superior online learning experience.

Working with these other global business schools, we have designed a powerful and intuitive learning platform, which enables us to produce highly personalized and interactive learning journeys.

Early this year, we launched our first blended MBA, a customized program for the German telecommunications company Deutsche Telekom, with online and face-to-face components. The feedback has been very positive and encouraging. Now ESMT is venturing deeper into blended learning. We are the first top business school in Germany to launch a blended MBA, consisting of 80 percent online and 20 percent face-to-face content. The two-year, part-time program starts in October 2020; participants can choose whether to attend the classroom sessions in Berlin or Munich. The course content offers new skills and career development for both employees of large companies and startups, with a focus on innovation and business transformation.

Why is this new degree program not taught completely online? Students love online but still appreciate the personal exchange of the classroom. A well-designed blended curriculum can vastly improve learning outcomes by ensuring that all students have grasped the main points before joining in class discussions. This “flipped” classroom allows students to experience the best of both worlds – learning factual knowledge at their own pace and then joining in discussion to trigger personal development.

It is up to you where to start (your decision, so to say), but I invite you to dive deeper into this edition of the Update. You can choose to read about the effect of luck on business decisions, about how we teach decision making, or how to get your customers’ attention. Or you can simply flip through and meet our new faculty members, learn about campus happenings, or get to know our alumni better.

The choice is yours, so enjoy! ✉️

JÖRG ROCHOLL
President, ESMT Berlin
ESMT Update

Winter 2019

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You are teaching students about decision science to affect leadership decisions. How well has it been received?

The research on decision science has become more and more popular. We have learned that when we make decisions, we are subject to what is called decision traps or decision biases – we are making mistakes without being aware of it. Our brain is making inconsistent choices for us – sometimes these are choices against our values or assumptions that contradict each other. The idea then is to use math to try to protect ourselves against these decision traps. Mathematical frameworks impose consistencies on our choices, helping us to approach decisions in coherent ways.

But that’s not the only approach. You could use a team to constrain your decisions, to de-bias yourself. You have your beliefs but, in a team, someone who has different beliefs can readjust your beliefs or challenge your assumptions.

In the same way, you can use math. And you can use other kinds of processes that constrain you to question your assumptions and to be consistent. That’s how I teach it.
In a recent interview with Brand Eins, you spoke about the impact of AI and machine learning on decisions. You shared an example from a doctor’s office and the diagnosis of a mole on the skin. How are we achieving this? Is medical science already moving ahead with AI-driven decision making?

In the medical sphere, there has been success and there has been failure. What seems to be working in machine learning is the diagnostic aspect, not the treatment aspect. IBM, for example, has tried to develop big computers to cure cancer. There is a lot of data but it is not working as well as in diagnostics.

There are deeper questions to raise about healthcare and machine learning. Are you giving up your decision making power to a machine that makes a diagnosis or (at some later point) a recommendation for your treatment? The choice for a machine versus a human creates other big questions. Is it ethical? Is it better? When should you do it? Does it mean that future doctors are only going to be there to make you feel good – to be warm and caring – while the treatments will be done by your iPhone or centralized somewhere else?

This is a question that will be true for all of us, not just doctors. For me, will it mean students don’t need professors? Will we only provide some coaching sessions? Maybe machine learning will mean they learn in front of their computers. And what about falling in love? Do you need algorithms that match you or do you still need human social networks?

The main question that healthcare issues illustrate is “What’s going to be our role as humans?” There’s no going back. What is sure is that machine learning will take over more and more of the tasks that we are doing now, in the same ways that computers took over much of what our parents and grandparents did before. The difference between machine learning and computers, however, is in decisions. Computers helped us with writing, calculations, presentations, and many other tasks. But what is new with the advancement of machine learning is that algorithms and machines are slowly starting to take over some of our most important decisions.

Is this because the machine is setting aside some of the biases and focused only on the optimal answer in a way that we humans aren’t capable of?

A machine is not a living entity. The efficiency of the machine is, in the end, the data not the algorithm. Of course, the algorithm helps. But it is the data on which it is trained that matters more.

For instance, we have biases – strong biases – that the machine doesn’t make disappear. For instance, the social biases we have are often captured by the data on which computers are trained. The more data you have and the better quality of your data, the better it’s going to be. But the machine is not going to tell you “these are the best things to do,” rather “this is the conclusion from the massive amount of data I have.” That’s the closest that there is. Why? Nobody knows. The machine does not know. Even the programmer does not know.

A great example of that is AlphaGo. Three years ago, this Google/DeepMind machine learning program won against amazing players – Go grandmasters. They use their intuition to play. There is no way to be a Go grandmaster without having deep intuition and creativity. Gameplay is so complex that you cannot program all of the possible moves. Yet Google machine learning beat the best players in the world. Just using data and game simulations, AlphaGo won. The thing is, nobody understands the strategy of this machine. There are no explanations for the underlying strategy – there is none, just the data.

Humans still have an advantage, though. Our computing capacity and ability to handle large amounts of data is no match for a computer. Yet we have the ability to use representations, to develop models of problems. We managed to put a man on the moon on almost our first attempt, and we found what we were expecting to find. No big surprises. Yet, we did not have any firsthand data point since nobody had gone there before. We could do that because of our ability to create representational models about how the universe works. A machine would have had to learn by much trial and error and likely killed billions of humans in the same attempt.
There’s so much talk these days about data privacy. Concerns about data quality – “garbage in, garbage out” – also undermine public trust in machine learning and artificial intelligence. How do we address this resistance?

If there’s resistance, it’s also for good reasons. Machine learning is a tool. We use “artificial intelligence” as a metaphor. It makes it seem more alive than it is. But in the end, what matters is what we do with it.

There are applications that I find extremely scary – China’s application of facial recognition, for example. You can also cheat the machine – you can use another machine to create a fake image of yourself, to make believe that you are someone else. I think we haven’t even scratched the surface of what is possible, yet.

In terms of business models and the economic side of things, data has become gold. As a researcher 15 years ago, you could approach a company, try your best, and have a reasonable chance that they give you some data to work with. In the eyes of the company, they worried a little about what you might find or about data leakage. But then it was “it’s okay, it’s just data.”

Yes, thank God, you can! [Laughs]

The key to develop your intuition is to have unambiguous and immediate feedback about your decisions. And that’s why it’s very hard, in fact, for managers to develop good intuition, despite some of their own beliefs.

If you’re an emergency room doctor who sees many, many patients, your decisions have immediate consequences. So you see right away, if you were wrong or if you were right. It’s sometimes ambiguous, but often if you say, “Oh, we need to do xyz,” and it fails, you have immediate feedback.

But let’s say you are a doctor working elsewhere in the same hospital but not in the emergency room. You believe that one of your patients has pneumonia, so you order an X-ray. But then you go home because you are done with your day. In the meantime, someone else was responsible for the care of that patient. You may never even know the result of the X-rays you ordered. Or, if you do get that feedback some days later, you will have forgotten what made you reach the pneumonia conclusion at that time.

Are there processes that companies can put in place to create more opportunities for this kind of feedback?

It is less a definitive process than an approach: we need to be extremely careful not to simply reward outcomes.

We tend to evaluate our decisions based on the success or failure of our results. CEOs know that they need to show success, whatever the reasons. The results of the decisions matter more than how you make the decisions. So, if you’re successful in whatever you do, you get your bonus and, with it, the implicit message that you will be rewarded regardless of the why. You may have been successful for all sorts of other reasons than your decisions. It could have been luck, for example. The reward creates the wrong incentive and prevents you from learning from your mistakes in the decision-making process.

When we do look, we look at the decisions when something has gone wrong. In a crash, you really want to know what’s going on and, along with it, who is to blame – usually the wrong person. Bad outcomes sometimes force you to go deeper. But with good outcomes, we do not care much. We celebrate and move on. Yet, we may have just been lucky this time and failing to recognize this possibility makes us unduly overconfident for the future.

The efficiency of the machine is the data, not the algorithm.

But, now, it’s much harder to get to the very same data. There is an awareness that data used for research can be used for other purposes. You can use it to make money. Or to learn something that you didn’t know before. The rise of machine data has propelled the notion that any data you have – even if you do not know now what you’re going to do with it – should be stored away in a treasure chest. How do I get the data? How do I protect it? The more data you have, the wealthier you are. Don’t give it away because, who knows, there may be value there that you can exploit or sell later.

When we consumers use Google, we give away a lot of our data. If I gave you the dollar value of this data, you might actually realize that the services of Google are particularly prohibitive. Google Maps is in fact extremely expensive because we’re giving up a lot about ourselves.

If you move people away from being machine reliant, what’s left? In the AlphaGo situation, you mentioned the role of intuition. Can you develop someone’s trust in their intuition?

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In his 2005 bestselling book, *Blink*, Canadian journalist Malcolm Gladwell noted a seemingly bizarre fact about his work with Fortune 500 leaders. “In the U.S. population, about 14.5 percent of all men are six feet or taller. Among CEOs of Fortune 500 companies, that number is 58 percent. Even more striking, in the general American population, 3.9 percent of adult men are six foot two or taller. Among my CEO sample, almost a third were six foot two or taller.”

Were the fortunes of multibillion-dollar corporations really being left to the luck of the genetic draw?

Some ten years ago, ESMT Associate Professor Chengwei Liu was undertaking his graduate work in management studies at Cambridge when, by chance, he too fell into the path of luck. “When I asked entrepreneurs in the area to explain their successes, they always referred to this idea of luck,” recounted Liu. “They were very lucky at one point in their career, and that enabled their success.” Liu wanted to study the phenomenon more closely but struggled to imagine the practical implications of his research in the real-world business landscape. “What should we tell managers?” he asked, “That they should be lucky?”

By TAMMI L. COLES
Still Liu decided luck was worth a closer examination. His research into the impact of luck showed that, one, and somewhat counterintuitively, luck could be studied in systematic ways and, two, that business leaders can strategize with luck. The key, however, is not to pursue luck. “Luck by definition is an unsystematic factor beyond our control or foresight,” said Liu. “So, if we take the definition of luck seriously, there should be no way to get luckier than others, right?” Instead, the power of luck is in using others’ belief in luck to your own advantage.

**Baseball, before and after Moneyball**

This year, the Washington Nationals claimed their championship in the World Series, their first in the Major League Baseball franchise. But well before the Nationals secured its place in baseball lore, the Oakland Athletics – more fondly called the Oakland A’s – changed baseball forever.

As the story goes, the A’s had far less to spend on player recruitment than their franchise peers. Rather than accept their down-on-their-luck circumstances, the Athletics general manager, Billy Beane, approached the problem in ways that seemed at least unconventional if not wrong-headed. Rather than relying on talent scouts to trust their instincts in the selection of players, focusing on perceived skills in fielding or batting, the A’s began drafting players with prowess in other areas. Rather than batting averages, they asked how often the hitters were getting to base.

The turn to using sabermetrics, the empirical analysis of baseball statistics that measure in-game activity, paid off handsomely for the Athletics. Their high game victories and low payroll payouts set them apart in baseball because, at the time, no other teams were using such statistically driven methods.

This all changed with the publication of Moneyball by financial journalist Michael Lewis. The 2003 report on how the A’s had successfully used sabermetrics ripped away the magic veil to reveal the power of analytics. The A’s exploited the biases that other teams had for players with similarities to previous star players and their pursuit of luck – the chance that a scout could “spot a winner.” And what they proved is that even players who don’t have “the look” could win the day on the baseball diamond.

**The diamond in the rough**

Luck has important implications for business and for society. Should the richest be taxed? In the US, belief in the American Dream holds powerful economic sway. Why punish a worker who has made their wealth with the blood, sweat, and tears of hard labor? Don’t they deserve to reap what they have sown?

“The conventional wisdom of luck is that if you work harder, you’ll get luckier. But some of my research actually demonstrates that may not always be the case,” said Liu.

For the average entrepreneur, skill, effort, and persistence will lead to good product
design outcomes and sustainable business models. Chance favors the bold, so the saying goes, but often where other systemic factors have cleared the path ahead. According to a 2005 report by Wojciech Kopczuk and Joseph P. Lupton of the National Bureau of Economic Research, nearly 50 percent of wealth is inherited and not self-made. “These pre-success dynamics means there’s very little we can learn from outlier or exceptional performance,” said Liu. “You can imitate everything Bill Gates did for Microsoft but you cannot imitate his initial fortune by being born in a rich family or having the connection to the IBM president through his mother. If you imitate Gates or other billionaires, the consequence will likely be systematic disappointment.”

Liu’s research into the performance of similar cases of “brilliant randomness” delved into the music industry’s production of stars. Someone with a hit among the top three singles on Billboard would be considered by most people to be a star, worthy of pursuit by the average music producer. What Liu’s research found, however, was that these top artists performed poorly with each subsequent single released – dropping from the top to a mid-range position on Billboard. Those climbing the charts were, by contrast, the musicians who had previously only achieved a modest position.

If you’re a producer, instead of focusing on the luck of the stars who landed among the top of the charts, says Liu, invest your bets in the mid-level performers. “They have better future performance and, predictably, they are ignored or underestimated by your rivals.” As with the Oakland A’s, the return on investment is higher where data and analytics – not luck – reveal actual value.◆

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How can companies use educational interventions to improve their management of the digital transformation?

Education is a very important part. But if it’s just one course – even if it’s for a month – and then you go back to your normal operational business, where nothing has changed, you’ll easily fall back into your old routine. People tend to fall back into their old routines because they’re safe. Change is unsafe.

So education alone is not enough. You have to educate so that people understand where it is coming from and to learn to not fear technology. But you also have to give examples.

Imagine that you are a 50-year-old manager, 25 years in Lufthansa, in middle management. Then all of a sudden, somebody says, “Well, we have digital now, and we don’t need the hierarchy.” Or imagine that you are a normal employee who is producing a part of a car that will not exist in electric cars. What is your future?

Fear is thus very important. You have to tackle that. You also have to tell people that there are opportunities. “There are jobs to do, and you are able to do it.”
Want Your Customer’s Attention?

By TAMER BOYACI

Time, as the saying goes, is money. And consumers in the fast-paced age of AI, the Internet of Things, and social media have less to spare of it than their parents did. Take the phone, for example. Before the advent of the smartphone, phone functions were much alike. The hardest choice for consumers might have been between the standard black model and the racy red one. Today, fingerprint sensors and facial recognition are less the stuff of spy novels than just some of the many smartphone features that consumers have come to expect.

In the face of such choice and information overload, sellers thus have tough calls to make about how to promote their products and services: Do you give your buyers everything they need so that they can make a highly informed purchasing decision? Or do you provide just “a taste,” trusting the time-to-decision-making ratio to work in your favor? If there are abundant product and service options but only a limited time in which to consider them, will the “information cost” attract or drive away buyers?

The answer is “it depends.”

I undertook research with my colleagues Frank Huettner at ESMT Berlin and Yalçin Akçay at Melbourne Business School to determine to what extent the time and effort of deciding between multiple products affected choices and associated revenue outcomes. We show in some cases that “less is more” actually holds true – but it depends very much on product type and quality. Accordingly, we found that if you take into account your customer’s limited attention when setting prices or providing product information, you can increase your revenues substantially.

We developed our research model on rational inattention theory. It holds that buyers will make mistakes, that they are aware that they will do so, but that they are also aware that they don’t have all the time necessary for making error-free judgments. The theory looks at what happens when buyers have made a good-faith effort of information gathering but have reached the point of making a choice. And we looked at how sellers can help them make that choice by lowering the information cost or by adjusting pricing.

Lower Its Cost.
Let’s apply the model to the smartphone example.

Smartphones fall into the category of so-called “search goods,” or products that customers can easily evaluate for quality. Thus, if you are a high-quality brand such as Samsung or Apple, you will want to make it very easy for customers to learn as much as they can about your product: Set up dedicated stores and displays in other shops to present the range of your models. (Surprisingly, even the parallel display of your most cutting edge and prohibitively expensive model will contribute to a buyer’s quality perception of the actually available products.) Invite potential buyers to touch, hold, and test your products. And run your marketing campaigns weeks – even months – before the release of a new model to generate as much publicity and excitement as possible.

If on the other hand you’re selling a knock-off smartphone that cannot compete in quality, our research shows success with the opposite approach. That is, low-quality providers raise revenue by providing only very little information, making it harder for the customer to discern the true quality of the product. So no in-store displays or dedicated stores. And instead of extensive product details, consider the influence of factors such as product assortment, web page display ordering, and simple product highlights.

If you are a lesser-known brand but reaching for quality-conscious consumers, playing on customer belief of quality – a fake-it-til-you-make-it approach, if you will – will have more traction. That is, do not try to convince them that you have “improved” your product or can offer “better” than the major market players. Act instead as if you are already playing in the same elite league.

In the end, it is the responsibility of all sellers to make sure that customers have what they need to make the “right” decisions about their products and services. In some cases, just providing a little more information is enough to boost sales significantly. In others, more elaborate, proactive methods will be vital to sales success.

ESMT Berlin publishes a monthly column on leadership strategy on Forbes. This article was first published on September 26, 2019. Visit www.forbes.com/sites/esmtberlin.

It holds that buyers will make mistakes, that they are aware that they will do so, but that they are also aware that they don’t have all the time necessary for making error-free judgments.
More than 350 international guests attended the ESMT Annual Forum 2019 to discuss global trends in business innovation and leadership. Representatives of the German Federal Ministry for Economic Cooperation and Development, NATO, RVVZ Foundation, the Federation of German Industries, and Huawei Germany set the stage with keynote presentations. Panel debates featuring the Council of the Protestant Church in Germany, Deutsche Bank, the Ethical Tech Society, Munich Re, and Siemens further enlivened the day. ESMT faculty deepened the analysis with interactive breakout sessions throughout the afternoon.
IN PICTURES

GLOBAL CHANGE
NEW CHALLENGES. NEW OPPORTUNITIES.

THIS PAGE
(Top) Driving innovation panel. Moderated by Melinda Crane, journalist and television host. Guests, left to right: Lolwah R M Al-Khater, Spokesperson, Ministry of Foreign Affairs of the State of Qatar; Roland Busch, Member of the Board of Management, Siemens; Doris Höpke, Member of the Board of Management, Munich Re; Karl von Rohr, Member of the Board of Management, Deutsche Bank; Stefan Wagner, Associate Professor of Strategy and Director of PhD Studies, ESMT Berlin

OPPOSITE PAGE
(Top) Gerd Müller, Federal Minister for Economic Cooperation and Development, Germany
(Middle left) Stefanie Babst, Chief Strategic Policy Analyst, NATO
(Middle right) Lolwah R M Al-Khater, Spokesperson, Ministry of Foreign Affairs of the State of Qatar
(Bottom left) Arun Sharma, Founder, Infinite Potentials Consulting
(Bottom right) Georg Garlichs, CFO, ESMT Berlin; Ruben Vardanyan, Co-Founder, Aurora Humanitarian Initiative

SAVE THE DATE
THE NEW WORK ILLUSION?
ESMT ANNUAL FORUM
JUNE 18, 2020
Digitalization and automation technologies have taken the world by storm. Whether via the public sector or in private businesses, AI systems, commercial data harvesting schemes, and the big data economy have left an indelible mark on the way we communicate, work, and receive services. Emerging technologies such as machine learning (a key component in the development of autonomous vehicles), the development of social media algorithms, and increasing public debates on the trust and authority of these applications have turned global society on its head. As a global community, where do we place boundaries on the rights and responsibilities of application developers? When do we need to prohibit certain processes on private platforms to serve the greater good? How do we support innovation and sustainable development in the digital economy?

A moderated talk on business ethics hosted at the ESMT Annual Forum 2019 – “Global Change. New Challenges. New Opportunities.” – tackled these questions and more. The invited experts were Bishop Wolfgang Huber, the former chair of the Council of the Protestant Church in Germany and an advisor on business values, and Lorena Jaume-Palasí, a member of several ethics boards as well as the executive director of the Digital Tech Society, a research organization investigating the social and ethical implications of automation and digitalization. In a discussion moderated by journalist and TV host Melinda Crane, the two examined the ethical dimensions of modern business, focusing on the use of AI in social media and its role in the rights and wrongs of social media players vis-à-vis business ethics.

Both speakers spoke with concern about the current atmosphere of debate on these platforms. How social media platforms handle vast amounts of user communication – including hate speech online and its real-world consequences offline – deserves considerably more scrutiny from all quarters.

On one side of the equation, platform giants like Twitter and Facebook bear responsibility in what takes place online, they argued. These platforms build the infrastructure and mediate the content and, as such, serve as private intermediaries of the environment in which public debate takes place and how that debate is moderated. As both speakers noted, giving private platforms such great public power is problematic for several reasons.
One part is in creating platform designs that, while encouraging engagement, also contribute to increasing public polarization. “This is something that is not reflected upon enough,” said Jaume-Palasí. “The ways that people communicate in social media is, by design, a way of communication that becomes very personal. In communication sciences, we see that when discussions about politics are identity conversations, people tend to radicalize into their own positions. Social media platforms should invest some thinking in this to avoid that type of polarization.”

“How social media platforms handle vast amounts of user communication – including hate speech – deserves considerably more scrutiny from all quarters.

“Some days ago,” said Huber, citing an example, “a (German) politician who was in favor of open door policies towards migrants was killed. Over the hours that followed, some users posted tweets and other media to express their joy about this killing.” Fundamentally, asserted Huber, “The digital media platforms are responsible for the violation of human rights and human dignity on their platforms.”
Another part is, thus, the question of what speech social media platforms can and cannot censor, and how they do so. Here, as Crane noted, political ideals like freedom of speech exist within a marketplace where consumers exchange their voice, as expressed by uploaded data, text, comments, pictures, videos, for platform services. Empathy, argued Huber, is missing from this censorship debate. “It is not the nature of algorithms to develop empathy for human beings. One of the specific human abilities is empathy – respect for the dignity of humans and the dignity of nature. The platforms have to include more human persons who stand for this element in the platform.” This goes beyond the rights of individuals, however, argued Jaume-Palasí. “Algorithms don’t understand individuals. Automatizing processes is not about the individual, it’s about a collective. We need to evaluate whether this is architectonically structuring society in a proper way – not for the individual perspective but for a more collective one that would look at social cohesion, discrimination, plurality, and sustainability.”
This tension between algorithmic and democratic processes is one of the main points in the current debate on how both are developing within the global digital transformation. However, for Huber especially, positive changes for both will come down to the willingness of social media providers to be mindful of the “human” aspect of their algorithm. Discussions must shift their focus from the cognitive comparisons of human versus machine to the priority of human beings, human organizations, and human ideals in the development of machine learning for human rights and sustainability goals. “We will succeed,” said Huber, “if we understand that the ethic is not in the code but in the human interaction with the technology.”

Today, we find ourselves in a fast-paced, competitive, and relatively young market of algorithms that already have an enormous impact on how people communicate, live, and learn. They have already given rise to new regulatory considerations. As such, they are a paramount subject to tackle in the ethics space. As this talk showed, we are in the right position to decide the path algorithms will take and the framework in which they are allowed to exist. That said, the challenges posed to us by these technical tools are immense, varied, and, importantly, as potentially destructive as they are positive to human development. As the speakers noted, more public decision making and consideration of the social and ethical implications of these emerging technologies are well warranted.

Social media giants must acknowledge and counter the limitations of machine learning in creating ethical platforms.
Nationalism undermines human development

I recently explored this issue in an online class I taught on the future of globalization. In it, MBA students from 21 Global Network for Advanced Management schools met virtually to consider how nationalist backlashes could impact the global economy. They found a high correlation between support for globalization and the rate of change in the human development index (HDI), which combines indicators of a country’s education levels, economic performance, and population health.

Notably, it was the change in HDI that mattered, not the absolute level. In countries where HDI growth had slowed or stagnated, people were quite skeptical of globalization. But in countries where HDI growth remained robust and the quality of life kept improving, support for globalization was strong, even if absolute levels of education, prosperity, and health were lower.
Writing for the October edition of Harvard Business Manager, ESMT President Jörg Rocholl gives an overview of the key models and theories that have shaped economic thinking and action over the past four decades.

Three major events have influenced economics in recent years. First and foremost is globalization. In Germany, the turnaround led to disruption in the best sense of the word – Central and Eastern European countries were integrated into the global market. China caught up rapidly. The relationship between supply and demand – especially in markets for labor, goods, services, and capital – changed significantly. European unification has further intensified this process. Integration has been shown to be primarily due to the internal market created in 1993 and only secondarily to the introduction of the euro six years later.

The second drastic event was the financial crisis from 2007 to 2009. The previously dominant principle of the shareholder value approach, according to which companies orient themselves solely to the interests of their shareholders, was overtaken. Today, it is more a question of taking the interests of various stakeholders into account. The German economic system, based on the social market economy, has subsequently gained even more international recognition. The widespread approach in Germany during the crisis to cut dividends rather than jobs has resulted in significant international interest in the German economic system.
The third and most recent economic influence is the increasing digitalization of many areas of life and business. Companies have increasingly more data at their disposal and it is becoming easier to collect, analyze, and use them for economic purposes. The associated debate on how best to use them is a matter of concern for both businesses and regulators.

How have these major global economic events influenced the scientific discourse in business of the past 40 years? I would like to highlight three key areas that are of direct relevance to companies.

The first part concerns change in companies. When it comes to the sudden shocks that the Austrian economist Joseph Schumpeter has described, managers have to react – and change their company so that it can survive in the new world. There have been a number of breakthroughs in this area. John P. Kotter, a professor at Harvard Business School, published his book *Leading Change* in 1996. Kotter identified eight things that executives typically overlook when they want to bring about change: creating a sense of urgency, building a leadership coalition, developing a vision of change, communicating the vision within the organization, empowering it broadly, planning obvious quick successes, consolidating successes and deriving further change, and anchoring change in culture. Kotter counters these eight failures with an identical number of steps that are necessary for the successful change of a company. This concept has become probably the most popular change management model ever, and it is taught at business schools around the world. In 2012, Kotter added to it: In “The Power of Two Systems” (Harvard Business Manager, December 2012), he described how a network of volunteers in an organization can help lead the eight-step method to success.

The second major area in which management research made significant progress was the interaction of companies with the capital markets and in particular their financing. Economists Franco Modigliani and Merton Miller published two groundbreaking essays in 1958 and 1961, from which the trade-off theory of capital structure developed: The determination of the optimal capital
structure of a company thus results from the balance between the tax advantages of the use of debt capital and the costs of an increasing use of debt capital. Stewart Myers and Nicolas Majluf then went on to discuss in 1984 the consequences of information asymmetries between companies and investors. The Pecking Order Theory states that companies first prefer internal financing, for example by retaining profits, then raising debt capital, and finally issuing equity capital, i.e., a capital increase. In 1986, the Harvard scientist Michael Jensen established the free cash flow hypothesis: According to this hypothesis, excessive cash holdings can tempt managers to make – from the company’s point of view – nonsensical investments. This results in the need to buy back shares and distribute dividends in order to discipline management. Oliver Hart, who also teaches at Harvard, worked in the same period. His concept of incomplete contracts, for which he was awarded the Nobel Prize in 2016, essentially says: No one can perfectly predict the future and prepare for all sorts of events and contingencies. Investors should therefore prefer equity financing to debt financing because it allows them to use their ownership rights in an unforeseen event when needed.

An unforeseen event – that was the financial crisis that fundamentally shook the world economic system and the financing possibilities for companies. What were the consequences? Initially, the crisis led to a significant decline in share buybacks. As there was a lack of external sources of finance, companies learned to appreciate the possibilities of internal financing and, thus, of greater flexibility. Investors, on the other hand, viewed supposedly high cash holdings much less critically than in the years before the crisis. However, it is questionable whether this trend will continue, as companies have easy access to external financing in today’s low-interest-rate environment. The current trend is for companies to buy back their own shares on a large scale and thus shift their financing towards debt capital. This is a worrisome trend, because it ignores the essential lesson of the financial crisis: more equity capital and thus greater capacity to act in the event of unforeseen events have the highest value in a company’s sustained success.

The third major thematic block is strategy. For every student of business administration, the work of Harvard Business School Professor Michael Porter on competition analysis and the associated Five Forces Framework is part of the basics. According to this model, competition in an industry is measured by the competition among existing suppliers, the danger of new suppliers, the negotiating power of suppliers, the negotiating power of customers, and the threat of substitutes for existing products. The work of strategy researchers C. K. Prahalad and Gary Hamel in 1990 on core competencies is also part of the fundamentals. “In the long run,” they wrote at the time, “competitiveness derives from an ability to build, at lower cost and more speedily than competitors, the core competencies that spawn unanticipated products. The real sources of advantage are to be found in management’s ability to consolidate corporate-wide technologies and production skills into competencies that empower individual businesses to adapt quickly to changing opportunities.” A 1991 article by US strategy professor Jay Barney, in which he discussed how companies can translate their existing resources into sustainable competitive advantages, asserted much the same.

While these works have survived the tests of time, there are transitory but recurring trends. These include the question of whether companies should concentrate exclusively on their core business – or be able to leverage synergies through the formation of groups or conglomerates. Sometimes one solution, sometimes the other is in vogue. The discussion always revolves around whether the whole is worth more or less than the sum of its parts. Among the diversified conglomerates that have recently opted for concentration are General Electric in the US and Siemens in Germany (also read the article “Profits aren’t the only goal” by Siemens CEO Joe Kaeser) – probably also because the stock market in recent years seemed to reward the strategic focus. However, in many empirical studies the scientific community does not draw a clear conclusion as to whether a conglomerate discount or premium will ultimately exist.
Belén Villalonga, who taught at Harvard until 2012 and then moved to the Stern School of Business in New York, doubted the common conclusion among practitioners and scientists in 2004 that conglomerates are traded at a discount to their market value compared to the sum of their parts. Rather, it appears that it depends on the exact design of a conglomerate whether it offers added value for investors. In any case, the efforts to either reduce companies to their core business or to develop them into conglomerates were usually of great value for at least three occupational groups, irrespective of their influence on the value of the companies: lawyers, consultants, and investment bankers.

Proven knowledge hinders the exploration of risky but potentially profitable new ideas. A frequently cited solution is the organizational ambidexterity introduced by Charles O’Reilly III of Stanford and Michael Tushman of Harvard in 1996 to enable companies to be both efficient and flexible at the same time. Since then, companies have been experimenting with different models and with varying successes to implement this. The methods of agile management derived from software development, which give up long-term planning in favor of short processing cycles, enjoy a certain popularity.

To describe this change in a nutshell: We experience a transition from closed to open, from static to dynamic, from stable to changing, from sustainable to transient, from simple to complex. Will digitalization tame these trends or further spur them on? We probably will not need another 40 years to get our answer.

Excerpted from “Schumpeter ist aktueller denn je” (Schumpeter is more relevant than ever), published in the October 2019 edition of Harvard Business Manager.

Today, management researchers critically question concepts for creating sustainable competitive advantages. Instead, they emphasize that companies must constantly innovate. In 1997, Harvard Professor Gary Pisano and two colleagues wrote an influential article on the subject in the Journal of Strategic Management. In it, the authors emphasize the importance of dynamic business skills. As a result, ideas aimed at rapid innovation have also gained in importance. They are usually based on the desire to combine the uncertainty associated with innovation with the stability companies need. In 1991, the organizational researcher James March of Stanford University described this area of tension: “Exploiting
Business in Society: Measuring Impact and Creating Change

ESMT Berlin hosted the 18th Annual Colloquium of the Academy of Business in Society (ABIS) on October 29–30, 2019, on its campus in Berlin, Germany. In light of the 30th anniversary of the fall of the Berlin Wall, the colloquium reflected on three decades of global transformation.

(Top to bottom)

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Yury Blagov, Director, PwC Center for CSR, Graduate School of Management, St. Petersburg University, welcoming conference participants

Susanne Stormer (Vice President Corporate Sustainability, Novo Nordisk) and Katharina Stenholm (Senior Vice President, Chief of Cycles and Procurement Officer, Danone) in the panel discussion “Growing with Positive Impact”

Joanna Radeke, Manager, Center for Sustainable Business and Leadership, ESMT Berlin, moderating the panel discussion “The role of business in society – Trends and academic insights”

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From right: Alexander Holst (Managing Director, Accenture Strategy) and Mark Griffiths (Global Leader Climate Business Hub, WWF) in the panel discussion “Growing with Positive Impact”

Yanina Kowszyk, PhD student, University of Barcelona
DFG grants €12 million for financial accounting research

The German Research Foundation (Deutsche Forschungsgemeinschaft, DFG) has approved a new Collaborative Research Center (CRC) on “Accounting for Transparency.” The Center for Financial Reporting and Auditing (CFRA) at ESMT is among seven partner institutions which include Humboldt University Berlin, University of Mannheim, and Paderborn University. The new CRC is the first with a focus on business and management and comprises 23 research projects at the partner schools. A team of over 80 researchers will investigate how accounting methods influence corporate transparency and how this affects society. The CRC’s initial funding totals €12 million for four years. (May 28)

Financial Times again ranks ESMT top in Germany

ESMT placed 12th globally in the 2019 Financial Times Executive Education combined ranking of open enrollment and customized programs. The school has been the top provider of executive education in Germany since entering the ranking in 2010. ESMT open enrollment programs are ranked 8th and customized programs 18th. Compared to competitors, the international business school did especially well in the areas of preparation, course design, and teaching. ESMT campus facilities were also found to be exceptional. (June 3)

Hungenberg becomes dean of executive education programs

As of September 1, 2019, Prof. Harald Hungenberg serves as the dean of ESMT Executive Education, succeeding Norbert Sack in this position. He teaches executive education programs for leading companies worldwide and is a consultant and lecturer for strategy, innovation, and change management. After studying business administration in Giessen, Germany he completed an MBA at MIT, followed by work as a consultant for McKinsey & Company. Hungenberg has been a guest lecturer at ESMT for many years. (June 17)

Cooperation in global executive education strengthens German businesses

A new cooperation joins the executive education offerings and expertise of ESMT with the international network of the 140 Chambers of Commerce Abroad (AHKs) coordinated by the Association of German Chambers of Industry and Commerce (DIHK) in 92 countries. Both the DIHK and ESMT see the imperative of education promotion and knowledge exchange between countries, especially in times of rising protectionism. The cooperation will improve conditions for German companies conducting business abroad by educating local employees.

The DIHK has also joined the ESMT Foundation, the operator and majority shareholder of the international business school. (June 20)

Bedre-Defolie awarded €1.5 million grant for research on digital markets

Özlem Bedre-Defolie, associate professor of economics at ESMT, has been awarded the prestigious European Research Council (ERC)
Reading Room

Selected reading from published ESMT research

**A capital structure channel of monetary policy**
Benjamin Grosse Rueschkamp, Sascha Steffen, Daniel Streitz (2019)

**Commander inquiry: Fragen stellen [Commander inquiry]**
Jan U. Hagen (2019)
Flugsicherheit: Fachliche Mitteilung für fliegende Verbände 2: 16–20

**Consumer choice under limited attention when alternatives have different information costs**
Frank Huettner, Tamer Boyaci, Yalçın Akçay (2019)

**How organizations manage crowds: Define, broadcast, attract and select**
Linus Dahlander, Lars Bo Jeppesen, Henning Piezunka (2019)

**In search of behavioral opportunities from misattributions of luck**
Jerker C. Denrell, Christina Fang, Chengwei Liu (2019)
2017 AOM Best Paper Award Strategic Management

**Multiagent mechanism design without money**
Santiago R. Balseiro, Huseyin Gurkan, Peng Sun (2019)

**Rechtsfragen bei Open Science [Legal Questions Concerning Open Science]**
Henning Christian Lahmann, Till Kreutzer (2019)
Hamburg: Hamburg University Press

**Static or dynamic efficiency: Horizontal merger effects in the wireless telecommunications industry**
Michał Grajek, Klaus Gugler, Tobias Kretschmer, Ion Mişcişin (2019)

**The dynamics of relational quality in co-development alliances**
Francis Bidault, Alessio Castello (2019)

**When do family firms consider issuing external equity? Understanding the contingent role of families’ need for control**
Martin Kupp, Bianca Schmitz, Johannes Habel (2019)

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Master’s programs score much higher than national average
ESMT master’s programs scored more than 25 percent higher than the national average in practical relevance of studies in relation to employment after graduation, according to the National Graduate Panel. Participants of the survey included MBA and MIM graduates from 2017 who retrospectively rated their experiences at ESMT. The alumni evaluated timeliness of the content learned, instructor expertise, practical relevance of the coursework, combination of theory and practice, and preparation for employment. In all five categories, ESMT scored between 1.6 and 1.8; the national average lay between 2.5 and 3.2 on a scale of one to five, with one being the highest. (September 23)

New academic chair strengthens diversity in management
The newly endowed Volkswagen and Audi Chair for Diversity in Leadership at ESMT seeks to diversify executive leadership. The chair will combine practical exchange, competence building, and research along two core tracks: The first examines the persisting diversity gap, for example, the disproportionately low number of female executives in German companies at just over 20 percent. The second research track will focus on the importance and benefits of diverse and inclusive leadership in an increasingly global economy. (September 27)

ESMT awarded Erasmus Charter
ESMT has been awarded the Erasmus Charter for Higher Education (ECHE) by the European Commission, the prerequisite for participation in the Erasmus+ program of the EU. With an overall budget of €14.7 billion, the program financially supports European residents in studying, training, and gaining experience abroad. ESMT students will be able to apply for living cost stipends for exchange semesters at partner institutions and internships in the Erasmus+ countries. In addition to promoting student exchange, ESMT will develop knowledge alliances within the Erasmus+ framework, strengthening its partnerships with higher education institutions across the EU. (October 11)
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“It’s like a magic box with thousands of amazing tricks which you can use whenever you need them,” says Peter Minev of his executive MBA experience. In the following interview, published by the Association of MBAs, the ESMT Berlin graduate outlines how he balanced work and study alongside his family commitments, and why he thinks an EMBA can help business leaders to handle adversity.
Tell us about your current role.

I’m leading the Platform Engineering division at Careem [a Dubai ride-hailing service acquired by Uber in 2019] which has the primary responsibility to deliver the vision of Careem to become the super app of the Middle East.

When and where did you achieve your MBA?

I graduated from my EMBA study at ESMT Berlin in 2018.

You came from an engineering background – what prompted you to embark on an EMBA?

I originally applied for an EMBA because I wanted to move from just having strong engineering skills to also having the more general skills needed to run a company and a team, and move into a more general management role – not just one with an engineering focus.

My EMBA study helped me establish the German engineering branch of Careem greatly and make it a key part of the company’s success.

The reason why it helped me so much is that the journey of building the company in Germany required many skills beyond engineering management, including the marketing and establishment of a strong engineering brand, organizational design and strong financial skills needed to establish and manage a successful EU subsidiary of a company headquartered in Dubai.

What is the most interesting thing you learned from your EMBA?

I can’t point to one single thing, and I think that’s the beauty of the EMBA study – that you learn so many new and valuable things. I think people should not expect that they will learn one golden secret during their study, a silver bullet that will skyrocket their careers or businesses. Rather, EMBA study offers a solid foundation of knowledge and skills. Students can then access any of these skills, or pieces of knowledge, whenever they need them. It’s like a magic box with thousands of amazing tricks which you can use whenever you need them.

How did you find balancing work and study while completing your EMBA?

It was extremely difficult. Both my job and the EMBA study were very demanding. At the same time, I have a family and two children, I finished and published my book, Building Tech, and, in parallel to all that, I was helping my wife to start her own company.

The key for me during that period was very strong prioritization of my time. I also ensured that the few moments that I was able to spend with my children were completely dedicated to them – no phone calls, emails, or any other distractions.

How has the EMBA made a difference in your life? In particular, your career path and leadership journey?

It broadened my perspective on a wide range of management areas and professional topics. A significant part of this stemmed from the experienced professors at ESMT Berlin. At the same time, a lot also came from the diversity of the students – they came from many different professional areas and helped enrich my perspective greatly.

What issues do you think are set to make the biggest impact on business leaders over the coming five years?

I think the biggest impact will come from the speed of technological advancements and their impact on the business. Many business frameworks are based on the premise of slowly moving markets, for example, those which involve stages of detailed market analysis, thorough planning, and long execution phases before their eventual delivery to the market.
In today’s world, the speed of technological advancements is completely changing that paradigm. You might have a very successful product-market fit, but instead of enjoying many years of profitability, you might have to completely pivot the business and your product strategy just one year later. I’m not referring to one particular industry – this applies to many, be it transportation, food, healthcare and so on.

The speed of change we see across so many industries means that business leaders must rethink many of the existing management frameworks and tools they use in order to adapt. I think that shift will be the biggest challenge for business leaders in the coming five years. In the next five to 10 years, I think the automotive and pharmaceutical industries are next in line for massive disruption, after the disruption that we are currently seeing in the transportation and payment industries.

Do you feel optimistic that business leaders have the agility to thrive in adversity? How does an MBA-level education support them in rising to the challenge?

Absolutely! EMBA study provides a large range of tools, techniques, and knowledge that definitely helps business leaders to thrive in adversity. A significant part of the EMBA education is focused on a detailed analysis of real-life business cases that relate to business crises or major adversities, and involve approaches and techniques that help business leaders to learn how to handle complex situations. So, I definitely think that an EMBA is a great way to prepare business leaders for handling adversity.

What would be your advice to someone else considering an EMBA, especially if moving from a different sector?

I think that an EMBA study is particularly helpful for those from different sectors. For example, if you come from an engineering or legal background, its curriculum will help you to broaden your arsenal of management and business skills beyond your immediate area of expertise. This will ultimately prepare candidates to grow in their careers and take roles that require a broader set of skills and knowledge, involving business strategy, finance, organizational design and many other areas that form part of the EMBA curriculum.

That’s the beauty of the EMBA study – that you learn so many new and valuable things.

This article was originally published in AMBITION, the print and digital magazine of the Association of MBAs (AMBA), as part of its MBA Guide. Reprinted by permission.
Makarova, Vicentic to head ESMT Alumni London Chapter

In November 2019, Lisa Makarova (MIM 2014–16) and Ana Vicentic (MIM 2016–18) took over as chapter leads of the London Chapter. We would like to thank Virginie Bonnell (MBA 2013), the former chapter head, who founded the chapter earlier in 2018, organized wonderful events over the past one and a half years, and brought the community together.

Swiss alumni chapter relaunched

We are happy to announce that we relaunched the Switzerland Chapter this October. Cezary Sternecki (EMBA 2012–14) and Manuel Huber (EMBA 2017–19) started as the new heads with an event featuring special guests Zoltán Antal-Mokos, professor of strategy and dean of degree programs, and Nick Barniville, associate dean of degree programs, who gave firsthand updates on ESMT. Please join the Swiss chapter on LinkedIn.

Aicher joins Alumni Council

We are pleased to announce that Benedict Aicher (MIM 2015–17) has won the election to be President-Elect 2019. Congratulations! He will join the Alumni Council, represented by Philipp Dennis Niederhagen (EMBA 2010–12) and Oliver Hasse (MBA 2010). Together, the council will focus on existing and new initiatives, including leveraging and connecting the alumni network and acting as a bridge between ESMT and its growing and increasingly diverse alumni community.

Alumni awards conferred to Walter, Minev

This year’s alumni awards went to two outstanding candidates, who were honored at the Annual Alumni Meeting. The 2019 President’s Award for Alumni Service was conferred to Martin Walter (MBA 2015); the President’s Award for ESMT Alumni Leadership Achievement was awarded to Peter Minev (EMBA 2016–18). Congratulations!

Alumni donors fund Alumni Network Fellowship

We would like to thank the 81 alumni donors who contributed to the Alumni Network Fellowship this year. With your generous support, we raised 60 percent of the total goal for the Alumni Network Fellowship. Together with another ESMT scholarship fund, we were able to grant a full scholarship to Olga Almqvist, who is now part of the Executive MBA Class of 2019–2021.

Chapters organize educational, social events from Germany to Japan

In July, the Rhein-Ruhr Chapter organized a session with Harald Hungenberg, the new dean of executive education programs, titled “Collective Decision Making – can prediction markets improve decision making?” Zoltan Antal-Mokos, professor of strategy and dean of degree programs, and Bianca Schmitz, program director of executive education, joined as special guests.

In September, Tokyo-based alumni came together for an alumni brunch with Nick Barniville, associate dean of degree programs. Many thanks to everyone who attended, we look forward to many more events in Tokyo!

In October, members of the Berlin Chapter welcomed Jörg Howe, head of global communications at Daimler AG. He gave deep insights into the daily life of a chief communicator, the fast pace of communication, and how to manage crisis communications.

In November, the Frankfurt Chapter organized a guided tour of the art of the Deutsche Bank building. The group learned about the Deutsche Bank art collecting philosophy – it is not to buy art as an investment but, rather, to display quality artwork that embraces its own time.

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