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# Building Regional Management Training Programs in Latin America

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March 2001

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## List of Abbreviations

CDA -- Consejo de Direccion Asociados (a learning network in IAE's training project)  
CDEE --Centro de Desarrollo del Espíritu Empresarial, Universidad Icesi, Cali, Colombia  
CNC -- Consorcio de Necesidades Comunes (a learning network in IAE's training project)  
Dom Cabral -- Fundação Dom Cabral, Belo Horizonte,Brazil  
DPME -- Programa de Dirección de la Peque\_a y Mediana Empresa (a program within IAE's training project)  
EPSA -- Empresa de Energía del Pacífico (the large firm participating in the program of CDEE)  
IAE – Escuela de Direcciión y Negocios, Universidad Austral, Buenos Aires, Argentina  
IDB – Inter-American Development Bank  
IDEA -- Instituto de Desarrollo Empresarial Anáhuac, Universidad Anáhuac, Huixquilucan, Edo. de México, México  
MIF – Multilateral Investment Fund of the IDB  
NIST -- National Institute for Standards and Technology, U.S. Department of Commerce  
ORT -- Universidad ORT, Montevideo, Uruguay  
PI – Partner Institution  
PIDE – Programa Intensivo de Dirección de Empresas (a program within IAE's training project)  
PAEX Network – Training Program of Dom Cabral  
Siglo 21-- Universidad Empresarial Siglo 21, Cordoba, Argentina  
SME – Small- and Medium-Sized Enterprise

## **Introduction**

Since the decline of mass production models of industrial organization in the 1970s, scholars and policymakers alike have noted the increasing importance of small and medium-sized enterprises (SMEs) as sources of growth, employment, and innovation (Piore and Sabel, 1984; Birch 1980, Acs and Audretsch, 1990). This shift in the political economy of advanced industrialized nations has been matched to a certain degree in the developing world (EBRD, 1995; OECD, 1996; De Soto, 1989). Yet the policy and institutional responses to support SMEs in regions such as Latin America have not been forthcoming. In general, policy in Latin America has focused on the movement from unbalanced development approaches (Hirschman, 1973) to neo-liberal and property rights approaches (Dornbusch and Edwards, 1990; Williamson, 1991). The latter approach has focused mainly on promoting fiscal and monetary discipline at the macro-level and improving legal frameworks for private property rights and private investment at the micro-level. Although this change in policy has aided Latin American countries in reducing inflation and increasing foreign investment, it has tended to overlook the needs of firms and SMEs in particular to acquire the skills necessary to adapt to increasing market and competitive turbulence.

This paper analyzes the efforts of the Multilateral Investment Fund (MIF)<sup>1</sup> to address this institutional gap in Latin America through its Regional Management Training Program (ATN/MH-5418-RG). This program is unique in that since 1998 it has co-financed six higher educational institutions in five countries to develop and implement a variety of SME training programs and products. In turn, the experience of these different programs and products affords

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<sup>1</sup> The MIF is a special fund administered by the Inter-American Development Bank (IDB) to encourage the growing role of the private sector in Latin America and the Caribbean.

one insights into the strengths and weaknesses of certain training approaches in general, especially with respect to certain market niches.

The paper is organized as follows: Section I analyzes the problems behind the failures of both market-based and bureaucratic approaches to provide services such as training for SMEs. A cursory look at existing evidence from the developing world and Latin America in particular shows that SMEs not only lack adequate training institutions, but also an understanding of the basic importance in updating management and worker skills. Due to massive market failures and a lack of institutional experience, innovative supply-side initiatives are critical to help SMEs break out of low-equilibrium traps. Section II then shifts attention to the six SME training projects. After a discussion of the general aims of the Program and the individual projects, the paper assesses the projects in terms of their abilities to fill their different niches. In conclusion, Section III summarizes the lessons learned thus far from these projects.

## **I. The Dilemma of SME Training Services in Latin America**

Training for SMEs in both cutting-edge management practices and technological innovation has long been a concern in both developed and developing countries. Over the past twenty years, the US, EU and Japan alone have devoted hundreds of millions of dollars in public funds to help SMEs adopt continuous improvement methods, acquire and produce new technologies, and enter international value chains (European Small Business Observatory, 1998). In addition to the recognized contribution of SMEs to employment and technological innovation, the demand for public action in training emerges from two related causes. First, as with other areas of education, SME training is a public good that often is not adequately provided via market forces. Due to well-known problems of incomplete information and transaction costs, private actors find the

risk-return ratio too high to invest in services for many small firms that have a highly uncertain life-cycle and revenue base. Second, on the “demand” side, SME managers have limited funds and time and cannot clearly see the immediate benefits of training or even collaboration with other firms and educational institutions.<sup>2</sup> (Note that participation in inter-organizational networks is a key source of learning.<sup>3</sup>)

These two problems are even greater in Latin America, and in the developing world in general. On the one hand, weak market institutions exponentially exacerbate the transaction cost and information problems found in highly developed countries. On the other hand, demand-side barriers are amplified by the pervasive informal nature of SMEs and the general focus of economic policy on large established corporations (Middleton, Ziderman, and Adams, 1993; Fiszbein and Lowden, 1998).

Indeed, evidence appears to back up these concerns. For instance, recent studies in Latin America, Africa and Asia consistently show that not only is there a serious lack of SME services, including training, but also that SMEs are largely unaware of both the need for and existence of training programs (Tan and Batra, 1995; Middleton, Ziderman, and Adams, 1993; Fiszbein and Lowden, 1998). While such deficiencies may be expected in highly impoverished countries, this problem occurs as well in more developed countries, such as Argentina. In Argentina, SMEs account for a staggering 65-75% of industrial employment, but have witnessed a significant decline in their competitiveness and job-creation capabilities in the past 10 years. Argentine SMEs have little access to support services. A recent study by FUNDES-UNGS shows that less than 16% of the SMEs surveyed use consulting or training services and a large majority do not

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<sup>2</sup> For analyses of the economic and cognitive barriers to SME services, see Hughes and Storey (1989), Sabel (1996), Piore (1995), and McDermott (2000).

<sup>3</sup> See, for instance, Saxenian (1994) and the March 2000 issue of Strategic Management Journal.

participate in business networks. The study shows not only that there are relatively few training services for SMEs in Argentina but also that SMEs face significant legal, economic and cognitive barriers to accessing those services that are available (FUNDES-UNGS, 1999; see also IERAL, 1999).

Clearly, in such an environment, public provision of SME support services is needed. Yet, this “supply-side” approach is also subject to two serious criticisms. First, given the history of poorly performing governments and of clientelism in Latin America, bureaucratic solutions often fail. Second, as the work of Judith Tendler (1997) has shown, supply-side approaches often do little to serve specific needs of SMEs. For instance, training services are too general to encourage sustained use by SMEs and are ineffective in linking SMEs into reliable value chains, which provide sources of cash-flow and additional learning. In turn, supply-side programs often fail because they are too bureaucratic and do not stimulate SME demand. For example, Argentine national and provincial governments have a few hundred publicly financed support and credit services for SMEs, but most are ineffective and go unused (IAMC, 1999; IERAL, 1999).

These criticisms provide a template for the evaluation of the degree to which the MIF Regional Management Training Program and its projects can meet the demand for SME training:

- 1) A training program and project must be sustainable but reach an SME client base that is not addressed by existing private sector services. In other words, is sustainability at odds with the goal of reaching SMEs in real need of training? For instance, a program or product may first be targeted at established and profitable SMEs to generate a revenue base for potential cross-subsidizing services to lower-income SMEs. But how is the provider adjusting the program or product to expand the client base? Conversely, an institution may be using MIF support to target immediately lower-income SMEs, but it will need to adapt the program to include a more diversified client base.
- 2) Reflecting Tendler’s concerns, a program or product must address the needs of specific kinds of SMEs – be they needs based on sector, age, or size. In other words,

how are the program or product development processes being adjusted to give SMEs more applied skills and capabilities to enter a reliable value chain or market?

Notice that Points 1 and 2 are not mutually exclusive. That is, one often views sustainability mainly in terms of reaching clients with clear revenues. This view would hinder the ability of training programs or products from reaching the SMEs that probably most need the services. In contrast, a supply-side approach can become both sustainable and effective by adapting programs in two ways: diversification of the client base and targeting specific sectoral needs of SMEs. Indeed, MIF matching funds were designed not only to help fill the supply-side gap in SME training, but also provide financial “breathing room” for providers to experiment with their programs and products so as to meet the requirements of both sustainability and effectiveness. With this in mind, we now turn to an analysis of the demonstration projects.

## **II. The MIF Program and Demonstration Projects**

### **II.a. Overview of the MIF Program**

The MIF Regional Management Training Program serves to assist management training institutions throughout Latin America in the design and dissemination of successful approaches in management training and sustainable development for SMEs. (See Exhibit 1 for a detailed description of the program and its selection methods.) The program cited four objectives:

1. to promote sustainable market-driven solutions to management training for SMEs;
2. to test new methodologies and products in management training and sustainable development;
3. to leverage public/private sector resources necessary to create and disseminate successful models and environmentally sustainable solutions; and
4. to foster creation of a network of management and sustainable development training providers throughout the region to encourage mutual learning and collective innovation for SMEs.

To meet these objectives, the Program has two components: (i) demonstration projects and (ii) dissemination of successful approaches. (This section will discuss the main points of the first component; see Exhibit 1 for details of the second component.)

Under the first component, the Bank approved six demonstration projects that would be executed by training institutions throughout the region that have demonstrated leadership in the field of executive education, management training, and/or sustainable development through a competitive bidding process.

Management training institutions were invited to submit detailed project proposals with emphasis on technical assistance, local capacity building, product development, and diffusion of new practices to the SME sector. Proposals included general demand analyses of the training needs of potential SME participants, including a sectorial overview of the SME target group in the particular country or sub-region. The institutions also had to demonstrate that they could match 50% of the total cost of the demonstration project.

## **II. b. The Partner Institutions and Demonstration Projects**

The Program was open to supporting a large variety of training activities and methods, and ended up selecting six Partner Institutions (PIs) that reflected diverse methodologies, potential clientele, and countries.

**IAE, Universidad Austral, Buenos Aires, Argentina.** IAE has focused on executive business education for over twenty years, and was recently ranked as the only Latin American institution in the Financial Times Top 30 business schools in executive education. The IAE program aims to train fairly advanced SMEs in the newest methods of best practices in all

functional areas as well as help them develop network ties among themselves and, in some cases, larger firms. The total program is multifaceted where an SME can move through various phases for several years. The program begins with an SME participating in coursework and then moving into action or learning networks. As a member of either phase, the SME can also receive various services, such as access to IAE databases, a quarterly newsletter on entrepreneurial and SME issues, and free basic consultation.

There are three courses that an SME can enter. The courses last for about twenty weeks and meet one or two days a week. All courses use the Harvard Case method approach and stress student interaction and participation to the point where students begin to provide information on their problems or goals for direct use in course exercises. IAE believes that the interactive nature and emphasis on teamwork, collective problem-solving, and information-sharing are critical not only to accelerate learning but also to built inter-firm cohesion.

Two courses, DPME and PIDE, are mainly for presidents/owners and top managers of SMEs from various sectors. Each course meets several times per year and has students tackle various business issues that are of high priority to SMEs operating in Argentina, such as strategy, finance, operations, and organization. The main difference between the two courses is that PIDE is for SMEs outside of Buenos Aires Province, and thus organizes classes at times that are more convenient for those who travel long distances. In the first year, DPME and PIDE had a combined registration of 90 SMEs.

The third course, Cadenas de Valor, instructs SMEs that are suppliers or distributors for a major firm or multinational, such as Ford, Siemens, and Techint. IAE leverages its long history and strong reputation with large firms to organize these customized courses, which last several weeks, though not continuously. This course has had the most success, with over 400 SMEs

participating in the first year (1999). Part of this success is due to IAE's insistence that relevant professors spend several days with various departments of the large firm to learn their particular contracting system, standards, and goals for their SME suppliers or distributors. Also, participation costs are shared 50-50 between the SME and the large firm.

After their coursework, SMEs are encouraged to join less formal, often smaller problem-solving groups. These groups are CDA (Consejo de Direccion Asociados), and CNC (Consortio de Necesidades Comunes). Guided by a professor/mentor, participating SMEs use their own strategic problems or goals as the main points of discussion. The aim here is to improve continuous joint-learning and network creation. In the first year, CDA had 5 groups of 6 SMEs each. Both members of CDA and the courses were then encouraged to join CNCs, which define membership more by sector or operational complementarities (CDA is simply based on familiarity gained through the courses).

Because the coursework phase has had the most time to develop, this section will focus on these products and their clientele below.

**Dom Cabral Foundation, Belo Horizonte, Brazil.** The Dom Cabral Foundation has been involved in business education, especially for executives, for over twenty years. Dom Cabral's program is the PAEX Network. It aims to build structured learning groups of SMEs in a particular region (i.e., a state in Brazil or province in another country). Beginning in the early 1990s with one group, PAEX has expanded into six different states of Brazil since Dom Cabral's participation in the MIF program. Dom Cabral is currently trying to develop PAEX Networks in Argentina and Chile. There are four main aspects to the PAEX Project:

First, Dom Cabral has a specific methodology for the selection of both consultant/mentors and participating firms. Dom Cabral carefully chooses and trains an

associate institution in how to select SMEs and mentor them. It finds prospective associates through its previously associated firms and consultants. The associate institution/consultant, in turn, generates a list of prospective SME participants in the respective state. SMEs must display a willingness to grow their business, experiment with new strategies, and reveal sensitive information to group members. Sector or business area is not a selection criterion. Yet, at the same time, selection is often limited by the relatively high participation fees (US\$ 20,000/year). Although newer groups appear to have smaller firms, most participating firms are well-established, large- to medium-sized firms. A typical group has six to eight participating firms.

Second, PAEX groups use little formal materials, but instead derive subject matter from their own operations. The mentor of a group proposes an agenda for the year. Typically, the members would like to deal with short-term matters first and then move on to long-term strategy planning. The mentor then prepares for members some material relevant to the discussions in advance of each meeting. One important characteristic of the PAEX is that it is not about training but rather about building an internal capacity both at the individual (participant) and firm levels. In that sense, it is similar to EMPRETEC or continuous improvement methods. One "added value" of the PAEX is the fact that participants have to implement a specific module in their firm and then come back to discuss the implementation process in the group. In this way they manage to learn from each other's experience although firms are of different sizes and sectors. Within each group, there are several sub-groups for different managers from each member firm, such as a sub-group for only presidents or owners, a sub-group for top directors, a sub-group for middle managers, etc. Each firm usually has six participants in the general program.

Third, Dom Cabral has sought to have its PAEX members increasingly utilize the Internet. Dom Cabral has created a rather sophisticated website for PAEX members:

<http://www.redepaex.domcabral.org.br/>. Soon the most sensitive pages will be available only to members. These pages are where class materials can be downloaded, cases on companies and relevant information can be found, and members can post and receive answers to problems they are facing. For instance, one member posted a question about profit-sharing schemes, and within a few days, several suggestions were posted, including profit-sharing contracting framework that one member uses. Dom Cabral also encourages the use of the Internet, and the site specifically, by requiring the mentor to upload all discussion materials onto the site one week in advance of the particular meeting. Moreover, the mentor may not distribute “hard copies” at the meetings. In this way, both consultants and participants have been forced to become used to utilizing the website.

Fourth, Dom Cabral is attempting to build a cohesive network among the participants in the different groups. Besides interaction via the website, as just discussed, Dom Cabral is planning video-conferences, in which all groups participate together, and other like-minded forums.

**Universidad ORT, Montevideo, Uruguay.** ORT’s training program grew out of its experience with its distance-learning department and in partial collaboration with the management department. ORT developed a multi-point video-conferencing system with four locations or centers outside of Montevideo. The system is run on ISDN/telephone lines, and the program has two main components.

The first is the creation of the conferencing network. ORT has developed an innovative method to organize the courses and marketing for distance learning. It contracts with an educational outreach organization, CTC, with whom it has already done some other distance learning projects in Uruguay. CTC and ORT define a set of criteria about the video-

conferencing/SMEs courses, such as marketing, materials, training and selection of on-site facilitators, payment methods, etc. CTC then organizes a network of centers that are independent subcontractors. The three levels of actors – ORT, CTC, and the centers – communicate frequently to refine approaches and generate alternative courses. Professors usually teach from a studio at the University, though they may occasionally teach from one of the centers. The manager of a center is responsible for the marketing, organization of classes, and technical maintenance.

The second component is the course content. ORT's SME course is an extension of a general management program in which both SMEs and managers of a few larger firms participate. The program has different modules, each of which is about five weeks long, several hours per week, and covers a particular subject (i.e., accounting, finance, marketing, etc.). After passing an exam, the participant receives a certificate of management for a specific module and/or the whole program. Currently, one module costs about US\$ 320, with discounts of up to 20% for those who enroll in multiple modules. To date, the program averages approximately six to eight students per module per center. It is losing money, with the biggest cost being the telephone/ISDN charges from the state telecom monopoly, ANTEL. (These charges were lowered in mid-2000. But the program has not been able to generate the necessary participant volume to overcome the costs of multiple conference sites and attendant transmission charges.)

**CDEE, Universidad ICESI, Cali, Colombia.** The CDEE, a center focused on SME and entrepreneurship, was created over 15 years ago as part of Universidad ICESI, which was founded in 1979. ICESI's project follows a philosophy and structure similar to the Plato Project of Belgium and the MIF's pilot project for training SMEs in ISO 14000 in Monterrey, Mexico and Lima, Peru. Learning and implementation of continuous improvement practices occur most

efficiently in groups of related SMEs that are also given incentives and guidance by a major customer. The project has three main components to improve the capabilities and cohesion of SMEs.

ICESI must first develop a network and select SMEs. This phase is driven largely by securing the participation of a large, mentor firm from the Cali region that has both significant roots in the economic fabric of the region and a substantial number of suppliers that provide important value-added to the mentoring firm. The selection of the mentoring firm is vital, since it must recognize the value for its own operations in upgrading the performance of its suppliers and since it must become a “champion” of the project. To ensure mutual commitment, ICESI and the large firm formalize participation through a legal contract, specifying the costs and responsibilities of each actor.

After considerable delays in finding such a firm, due largely to the political instability of the region, ICESI signed a contract in February, 2000, with EPSA, a major provider of electricity to households and businesses in the Cali region. EPSA was privatized in 1997. It is now owned by a consortium of two firms from Houston, Texas, and Caracas, Venezuela. ICESI and EPSA then created a method of selection for the sub-contractors of services and suppliers of components. From an initial list of 32, they chose 16, based mainly on the SME’s strategic importance to EPSA and the SME’s level managerial and financial commitment. EPSA aims to reduce its number of subcontractors and suppliers from 2000 to 300. This is mainly due to a reorganization of suppliers and subcontractors, not necessarily an out-right reduction. Also, EPSA is pushing its suppliers and subcontractors to become certified in ISO 9000 and 14000. In turn, EPSA views the ICESI project as a useful way both to reorganize and upgrade its network.

The participation fees for the firms for the duration of the Project are: EPSA – US\$ 30,000 and each SME – US\$ 3,000.

Soon after the selection of the 16, ICESI begins screening consultants who will run particular training classes and act as facilitators of network cohesion for the participants. One was contracted early on to implement a diagnostic of EPSA and the 16 participants (see below). Other consultants are selected according to their sectorial and business experience and the training proposals they must submit.

The first stage of training is a performance and organizational diagnostic of EPSA and each of the 16 SMEs. This “Mapa de Competitividad” is private information between the consultant, ICESI, and the individual firm. The Mapa uses a detailed questionnaire to assess the strengths and weaknesses of each participant, potential complementarities between them, and the training priorities of each. The aggregated information is given to all participants and is used by ICESI to formulate the main issues to be addressed in the training program. It is important to note that training always occurs at three levels: the adoption of best practices of a particular functional area, the adoption of general practices for systemic self-evaluation and continuous improvement, and the adoption of management principles that take the network, (and not simply the firm) as the unit of operation and analysis. The main issue areas identified are: the development of effective intra- and inter-firm communication, strategic planning, marketing and sales, technology management and innovation, human resources management, finances, conflict management, quality control, self-motivation, risk management, results-oriented practices, teamwork skills, emotional intelligence, and leadership.

Classes are held every three to four weeks, usually comprising whole weekends. ICESI’s obligation to MIF is to provide 240 hours of training, but in its contract with the firms ICESI is

obligated to provide 300 hours of training. ICESI is planning 12 hours of training per month for the next four months, and then 20 hours per month afterwards. Each class also has relevant managers from EPSA. Classes will be held in each of these issue areas, while the first few sessions are focused on general issues, such as ISO certification, network-building exercises, etc. Moreover, ICESI is currently assessing ways to utilize the Internet to facilitate out-of-classroom discussions and information sharing among the participants. EPSA is in full support of this since it eventually wants to have all top-tier suppliers linked with each other and EPSA on a real-time operating system, like SAP. ICESI is planning a second phase, which would lead the firms from the classroom to monthly network meetings in which the participants, with the aid of a facilitator and EPSA mentors, would trouble-shoot their own problems together.

ICESI believes that this initial pilot group will have demonstration effects that will help the project grow in two ways. First, EPSA is planning to have another, larger set of suppliers enter the Project within 6-12 months. Second, because of EPSA's strong presence in the Cali business community, ICESI believes that other potential mentoring firms will soon view the positive impacts of the project and want to join. Moreover, EPSA has agreed to work with ICESI in recruiting other candidates, either through its own contacts or addressing certain professional and industry associations.

**Universidad Siglo 21, Cordoba, Argentina.** Siglo 21 began in 1995 and focuses on business and economics education. Siglo 21 is creating an interactive CD-ROM kit (with manuals, cassettes, and videos) mainly for owners of micro-firms to learn the basics in business and management. Each of 12 CD-ROMs will be like a chapter of a general textbook on SME management. Each CD-ROM covers a particular subject (i.e., finance, international trade,

operations, etc.) but has cross-reference links between “chapters” (to be activated after one has downloaded all CD-ROMs into the hard drive).

This project is trying to make to major types of innovations: design and content. The design innovation is in multimedia flexibility – creating new forms of teaching a subject (such as interactive charts and exercises, customization of exercises to ones particular business, etc.) and building the capacity to produce a broad scope of media forms (text, CD-ROMs, Audio cassettes, Videos, games, an internet site, etc.). The content innovation is the attempt to customize the subject matter and teaching methods to micro- and small firms that have little formal training or experience in a variety of management areas.

In order to achieve these innovations, Siglo 21 has the challenge of integrating two types of product development methodologies. On the content side, Siglo 21 launched its project on the basis of some basic research on Cordoban SMEs that it did with a government support agency back in 1997. This helped Siglo 21 define the target market and the basic training needs of the firms. It then recruited professors and consultants with experience in both SMEs and the particular managerial subject. Further development of the subject matter and pedagogical methods was not based on a systematic market/demand survey. Rather, individual professors have done their own research and surveying, although it is rather unclear whether there was any systematic method within or across subject areas.

While it appears that a team drew up some basic guidelines on content and presentation, professors have largely been left to their own devices in content development. The principal general criteria are the use of short presentations on each particular topic, the use of some unorthodox graphics and presentation methods, and the use of a framework for subject exercises that allows the student to apply his or her own problems (e.g., financial accounts) to the virtual

worksheet. The technical team then integrates all information and meets periodically with a small team of professors and project directors to review the ways the new technologies can enhance content and teaching methods. As of December 2000, six chapters/CDs have been completed. The most important test of the project is currently underway – a trial run of the six CD-ROMs with a local business association.

**IDEA, Universidad Anáhuac, Mexico City, Mexico.** IDEA was established in 1996 with the Escuela de Economía y Negocios of the Universidad. IDEA is developing a multi-media teaching and training package for SMEs managers.

This package has three components:

- 15 Business School-type Case Studies on a variety of SMEs (according to size, age, and sector), mostly in Mexico with approximately three to four from other countries in Central America. The goal is to have them published together as a volume by McGraw-Hill. The cases come with teaching notes and exercises.
- CD-ROM with interactive exercises based on each of the cases.
- 15 Videos (one for each case) of approximately 30-40 minutes each. The video is a well-produced interview with the consultant who wrote the particular case, with clips from within the actual firm.

IDEA plans to sell the packages (as wholes or parts) to both SMEs managers and to educational and training institutions. They have access to a network of 5000 SMEs that have been associated with the Escuela de Economía y Negocios and will act as its first stage market.

To date, almost six cases, with their CD-ROM content and videos, have been fully completed. Five more cases have finished the writing stages, are under review (see below), and have begun CD-ROM and video production. The remaining four cases – from other Central American countries – are in their writing stages.

IDEA has demonstrated a relatively thorough design and production methodology. They first created, with the aid of some faculty of the Escuela de Economía y Negocios, a detailed

methodology for the research and writing of cases (three manuals of about 20 pages each) and for the selection of consultants. For the initial six cases, IDEA formed a short list of 18 consultants (mainly part-time or occasional researchers and teachers of the Escuela de Economía y Negocios), from which IDEA selected six. A selection committee was formed with members from IDEA and the Escuela. Selection was based mainly on general case-writing skills, experience in particular sectors of priority, experience with SMEs, the ability of the consultant to gain the explicit, written cooperation of a firm for full access, and the ability of the consultant to offer a case in a sector previously overlooked by IDEA. Selected consultants were then trained by IDEA in its case-development methodology.

Cases go through several rounds of review and revision. First, IDEA works with the consultants, individually and in groups, on early drafts of the case. This process includes review and input by professors of a relevant department within the Escuela. Second, a committee of professors from the Escuela reviews the case. After satisfactory revisions, a committee of business persons associated with the university further reviews the case. When satisfactory revisions are completed, the case is considered ready for public view.

During the review process, IDEA and the consultant begin work on the development of exercises based on the case for the CD-ROM and the video. The two aforementioned committees also review the CD-ROM material and the videos. IDEA has also developed a methodology booklet for each area.

Further details on the PIs and their projects can be found at the program website: <http://lanic.utexas.edu/pyme/eng/projects/>. Table 1 provides a comparative summary of these PIs, their projects and their clientele. None of the PIs conducted extensive market-demand surveys in advance. Rather, they developed their product strategy and niche based on their

respective years of experience in management education and SME training and available research on SMEs in their countries. This paper will compare the projects according to two types of classification: product or program content and method; targeted clientele.

## **II.c. Content and Method**

### *II.c.1. Training Programs*

Four of the six PIs are developing instructional training programs. These four are IAE, Dom Cabral, ICESI, and ORT. The first three are similar in that they are using a combination of standard classroom and “network learning” methods. The programs for IAE, Dom Cabral, and ORT begin with teaching SME managers both concepts and empirical cases concerning a particular subject. The subjects vary from session to session, but a general theme is the development and implementation of continuous improvement and self-evaluation methods by managers within each managerial area. Within a program, several subjects areas are covered. Over time, participants can request that deeper analysis of a subject be explored. Participants then begin to engage in collective or team problem-solving of issues brought by the participant firm. For instance, in DPME and PIDE courses of IAE, each participant presents a “live case” – presentation of a management problem that he or she is facing. The other participants then help the presenter develop a strategic solution. In IAE’s Cadena de Valor, where participants are suppliers or distributors of a large common firm, subject areas and applied problem-solving are more quickly identified and used, since all firms face a defined set of related challenges. In Dom Cabral’s PAEX network, managers must develop and implement a new strategy in a functional area. Fellow participants advise and monitor one another’s progress.

In the programs of these three PIs, participants are usually from a variety of sectors and represent different firm sizes and life cycles. This lack of sectoral specification, coupled with the broad subject matter, can limit the effectiveness and attractiveness of the programs for SMEs. IAE is attempting to rectify this by reorganizing their programs along more sectoral lines. Moreover, Cadena de Valor already appears to have resolved this problem by its very definition. ICESI has addressed this problem in two ways. Similar to IAE's Cadena de Valor, ICESI's program is based on training a defined group of related SMEs. The subject matter is then better defined by the needs of the large firm with which they work. Also, ICESI conducts a diagnostic of the large firm and the SMEs, thereby identifying the most important issue areas.

The use of collective or team problem-solving methods brings an additional benefit. It helps firms that may not know one another or that may view one another strictly as competitors to forge stronger professional and social bonds. The literature on training shows that the strengthening of network ties greatly improves learning, innovation and the potential to engage in new collaborative ventures (see Sabel, 1996; and McDermott, 2000a, for overviews).

In contrast to these programs, ORT's distance-learning program trains relatively smaller firms from services, trade, and light manufacturing in general managerial subjects. A professor teaches via closed-circuit television to several groups of managers throughout Uruguay. Each of the six modules covers a particular subject, such as basic accounting and finance, marketing, etc. There is little interaction between students and limited interaction with the professor.

### *II.c.2. Training Products*

Siglo 21 and IDEA are developing concrete training materials to be used by either the firm on its own or by a professor in a classroom setting. Siglo 21 is developing 12 interactive kits (the principle product is a CD-ROM), each of which covers a subject area, such as finance,

international trade, human resource management, etc. The user would purchase the kit or CD-ROM from Siglo 21 or from a vendor. The kit can potentially include the CD-ROMs, texts, exercises, Videos, Audiocassettes, etc.

IDEA is developing 15 original cases of SMEs from Mexico and Central America. Although the components can be purchased separately, a full Kit for a single case includes the case text and exercises, a CD-ROM and a video. Also, IDEA will publish a book that comprises all the cases and exercises. These products are designed for use by firms and consultant and educational institutions.

#### **II.d. Target Client Base**

The design of each of these projects focuses on a specific client base (see Table 1). The programs of IAE, Dom Cabral, and ICESI can all potentially reach a diverse clientele of SMEs. To date however, their methods and cost structures limit their client base. Dom Cabral currently costs \$20,000 per year for an SME and has high start-up costs due to logistics (PAEX networks throughout Brazil and in other countries) and careful selection and development of its consultants. Moreover, the PAEX network approach emphasizes the high interactive participation of relatively small groups of managers/firms (7-15). In turn, participants include medium to large firms with about 15-25 years of existence and relatively stable revenue bases.

IAE is somewhat less costly. Its clients are SMEs but mainly those with a long history and solid revenue base. ICESI's SME clientele depends largely on securing the mentor firm. This firm participates in order to upgrade its supplier network. But once the large firm's participation is secured, the SMEs come from a variety of backgrounds.

ORT's approach, in contrast to those mentioned above, has allowed it to reach 1000 micro and small firms, but it faces a problem of sustainability. ORT's offer of standardized

courses to the general public for a relatively low price allows it to reach many needy micro-, small- and medium-sized enterprises. However, the low price is insufficient to cover its high carrying costs (transmission costs, maintenance of multiple centers, etc.), and the lack of customization in both subject matter and method do not generate sufficiently large volume of demand.

The basic level and generality of subject matter of the Siglo 21 Kits is geared to enterprises with little formal education. Market research used by Siglo 21 shows that more than a third of SME owners have less than a secondary education and three-fourths of SME managers learn through their own experience. In turn, the Kits of Siglo 21 are geared to lower-income micro-, small- and medium-sized enterprises that can integrate the interactive and application exercises into their own business experience. In this sense, the Kits are instructional manuals for managers.

IDEA has recognized the great need for training materials for SMEs. In general, Latin American management educational institutions must use Spanish or Portuguese translations of standardized texts and translations or original versions of cases of large firms. Even in the United States, cases on SMEs are hard to come by. Hence, IDEA is killing two birds with one stone: their cases are about SMEs in Latin American contexts and are also in Spanish. The cases, along with their other multi-media components, probably will have the best use in other universities or training centers throughout Latin America, though IDEA hopes to market the products directly to firms and consultants as well. The flexibility of products comes not only from their multi-media nature but also from the interactive design of the exercises.

In summary, we can say that Dom Cabral sits at one extreme of larger, more lucrative clients, but with limited market penetration. It is closely followed by IAE and less so by ICESI,

though ICESI depends heavily on a large, lucrative mentor firm. At the other extreme are ORT and Siglo 21, with their focus on micro and small firms that have low incomes and little prior formal training or education. IDEA is distinct in that its product appears geared mainly toward educational institutions and training centers.

### **III. Evaluation and Lessons for Sustainable Market Demand**

#### **III.a. Reconsidering the Six Projects**

One can identify three general advantages of the MIF program. First, the program is filling a large void in the provision of SME training programs and materials for Latin America. Second, the program is generating diversity from which one can learn – diversity of the socio-economic contexts of the PIs, diversity of the user markets, and diversity of the methods and content of the programs and products. Considering the relatively low cost of the program (about \$2.5 million in co-financing), the projects' diversity and richness provide excellent data that policy makers and educators can use in developing new programs or products. Third, the program has avoided the bureaucratic and information problems typically associated with supply-side approaches. By using private-sector PIs with ample experience in management and SME training, the program makes service or product delivery more efficient and more sensitive to the grassroots concerns of SMEs.

In Section I, the paper outlined a template for evaluating the degree to which the projects can meet the demand for SME training. The critical issue was how the projects were able to optimize the mix of sustainability and demand customization for relatively large and growing niches of SMEs. While content of a product or training program is important, the PIs must be able to demonstrate a clear methodology about how they are systematically adapting the project

both to diversify the client base and address the specific needs of certain groups of SMEs. Although the PIs have made some progress on these fronts, they appear still to face serious challenges.

As mentioned earlier, all PIs undertook limited formal market demand surveys. This should not, however, be viewed as a limitation in itself. A more important concern is how the PIs integrate the identification of their niches into the project development process. Consider first the four projects that are developing training programs.

We have seen two basic approaches in targeting niches: one focusing first on a limited number of clients that can pay and another on a larger number of clients who face more serious budget constraints. The advantage of the former approach is clearly the ability to generate revenues for the project. The disadvantage is not penetrating a more extensive market of SMEs that face serious economic and cognitive barriers to training. The second approach faces the opposite combination of advantages and disadvantages. Yet the difficulties in the sustainability of the second approach (i.e., that of ORT) are not due simply to a focus on low-end clients, but more to the generic nature of the product. This problem points to a potential solution for all programs: combining revenue diversification strategies with a program customization strategy.

All the training programs need to continue to experiment with diversifying their clientele, not simply in terms of those with more or less revenues, but particularly in terms of meeting the applied needs of different clientele. This view on customization and diversification of program content begins with the common methodological template that IAE, Dom Cabral, and ICESI are all using; i.e., teaching firms how to implement systematic methods of continuous self-evaluation and improvements. This goes beyond the traditional one-time information infusion of a particular technical method in a functional area (e.g., methods of leasing). Rather, it teaches

firms how to begin to learn and innovate with respect to practices on their own. This template can be applied to any functional area. The advantage for the PI is that the method makes use not only of standard course materials, but also demands the interactive participation of clients: in learning how to apply best practices in their own firm, the clients share knowledge with one another and indicate to the PI what issues of practices and management are most important. With this information the PI can begin to tailor programs more specifically to a variety of SME groups (e.g., by age, size, or sector).

For those familiar with SME training programs, these remarks may sound familiar. The training methodology just described has been at the core of some of the most successful SME training programs around the world, such as the Plato Project, the partnerships in Ireland, and the federal network of Manufacturing Partnership Centers of the U.S. National Institute for Standards and Technology (NIST). More recently, the IDB itself has sponsored the development of a several enterprise training centers in Argentina in collaboration with the Argentine Union of Industry. The most successful center (in Rosario, Santa Fe) has used this basic methodology. (For details, see the evaluation report by Nexus Associates completed for the IDB in March 2000.) These experiences point to two additional challenges for PIs in the relationship between their organizational practices and program development methods.

First, how can PIs try to customize but also find a volume of clients sufficient to cover costs? The work on SME training both in developed and developing countries suggests that the PIs should work with intermediaries, such as trade or SME associations, regional governments, and large firms who maintain a large upstream or downstream base of SMEs (see, for instance, Sabel, 1996; McDermott, 2000a; and Middleton et. al, 1993). We have already seen this method in IAE's Cadena de Valor program and ICESI's program. Working with identifiable groups of

SMEs can lower costs for both user and PI, directly address the customization issues, and built an inter-organizational foundation for a continuous flow of clients and market information. Moreover, contracting with groups improves the educational process since it facilitates team work methods and builds vital network ties.

Second, in order to optimize the mix of cash-flow and customization, the PIs must focus on their ability to generate economies of scope. Any program will go broke if it tries to use completely different resources to meet each different customer need. Therefore, the PIs must develop their programs by trying to contract a limited number of higher qualified consultants or professors that not only can teach across a few management areas but also have a deep knowledge of a few of the SME niches, such as size, industrial sector, etc.

The central idea here is that the PIs are gradually but vigilantly adapting their programs and probing new market niches via intermediaries. This strategy does not need formal market surveys to be conducted as much as it needs the PIs to develop an ever expanding and solid inter-organizational network into the world of SMEs.

This strategy can also be applied in general to projects that are developing products or course materials. While IDEA and Siglo 21 will of course need to conduct a market survey (especially for distribution issues) and test market in their own localities, they have the immediate advantage of utilizing their local inter-organizational network and that of the MIF program. For instance, we can see already that Siglo 21 is using intermediaries (associations and local governments of nearby municipalities) to test their CD-ROMs. Similarly, IDEA has access to a vast network via its business school. But in addition, the other four PIs of this Program are sources of both product testing and distribution. Each PI can test the products and also refer the producers to other universities in their respective regions.

### **III.b. Lessons for the IDB**

Notice that the above remarks stress that the PIs must both teach and use methods of continuous improvement and adaptation as well as methods of generating and utilizing an inter-organizational network. These lessons are no less salient for the ways the Bank governs both the program under discussion and its other lending and development activities.

Often the Bank governs a program in two steps. It first establishes some basic qualitative and quantitative criteria. It then assesses whether grant or loan recipients meet these criteria through periodic activity reports, on-site missions, and disbursement requests. These methods are useful when the program or projects under question are well-defined and standardized and when the recipients have *a priori* the known organizational capacities. Yet, for training projects in general and this program in particular, such methods are too “arms-length” and static. That is, such programs and projects are so dynamic and exploratory that they demand a method of governance based on combining monitoring and learning. (For a similar analysis of World Bank institutional development and fiscal adjustment programs, see McDermott, 2000a.)

On the one hand, the PIs (individually and collectively) are attempting to design, implement, evaluate, revise, and re-implement a variety of training methodologies to capture a relatively diverse set of market niches. Similar to product development processes of a large corporation, it is virtually impossible to use standard contractual methods to govern the principal-agent relationship, since the experimental process itself can not be precisely defined *ex ante*. And similar to attempts to decentralize government programs to sub-national organs, often the subordinate organization does not know exactly how to implement a project in a context where the proposed beneficiaries do not know how to articulate *ex ante* their demands or means to satisfy them. In turn, the goal of the PIs is not simply to produce a product or program, but

more importantly, to create an organizational form and set of practices that help them learn how to explore new training methods and penetrate new SME niches.

On the other hand, the use of periodic, arms-length methods of evaluation by the Bank may simply reveal that most recipients or PIs are slow, misguided, or ill-equipped to optimize the mix of cash-flow and customization. To overcome this deficiency, the IDB may want to consider implementing governance methods that large corporations and decentralized government agencies (such as NIST) have used to guide new product and program development processes. These methods begin by combining project evaluation with technical assistance on an ongoing basis and using benchmarks of both project method and content. While the technical assistance may address the substance or content of a particular training product or program, its focus is on helping the PIs articulate and apply a methodology of experimentation. Similar to principles of ISO certification, the PIs, and grant or loan recipients in general, must continually demonstrate how they are approaching certain aspects of the project development, explain their failures and successes, and then how they are utilizing what they have learned to move to the next stage or fix defects of past stages. As a natural consequence, the particular training program or project is being implemented, revised, and tested anew. For instance, subsequent project disbursements would be approved only after the program monitor and the IDB local officers are satisfied that the PI is making progress in both the project methodology and adaptations to the training program or product under question. Indicators of the latter include alterations of teaching content and method, personnel policies, cost-revenue projections, and SME niches. But because the experimental process is dynamic, these indicators should first be formulated jointly between the PI and the program coordinator, be used as benchmarks to measure progress, and potentially be revised to account for unforeseen failures and successes.

The upshot is that PIs must be reviewed every six to nine months on both their methodology and program/product outcomes against a set of “rolling” benchmarks. In developing the methodology and benchmarks with the individual PIs, the program coordinator is able to focus technical assistance on the areas where the PIs need it most.

A second, related lesson for the IDB is in the use of inter-organizational networks. In a program such as the one under review, one of the primary benefits is the development of a cohesive network of capable Latin American institutions dedicated to a particular issue. Such a network provides the IDB with a foundation through which it can channel more demanding or diverse projects in a confident manner (remember one is investing into a project *and* an organization) and upon which it can integrate new institutional members, say from other countries. Ideally, as this program reaches its later stages, the IDB and MIF should have a network of interlocutors that can identify and engage new areas of SME development and research as well as mentor new PIs from other countries that are developing SME training programs.

Perhaps more importantly and immediately, the IDB has a network of PIs that can greatly aid one another’s development – both in the projects and as like-minded organization. That is, as mentioned in the discussion on SME training methods and as reflected in the governance methods of corporation, NIST, and ISO, inter-organizational learning is vital to any advancement and will be maximized when organizations are embedded in a rich and cohesive network. Thus, a goal of the IDB should be to improve the professional and collaborative ties among the PIs (and any participants of other programs). The PIs can learn potentially more from one another than an outside coordinator or expert since each of them is facing similar challenges – from the more abstract issues of creating and implementing a product development methodology to more

concrete issues of structuring consultant contracts, selecting certain course materials and teaching methods, etc. Moreover, with such a network, the program coordinator will be able to vastly improve both monitoring and learning. The content and methodological benchmarks and evaluations of the projects can be enhanced through structured comparisons across similar organizations. Technical assistance can often take the form of promoting learning between PIs – directing a PI to another one that already faced a similar problem. Indeed, one could argue that without enhancing the inter-organizational, or in this case, inter-PI learning, one will not be able to build durable, collaborative ties among them to form a future policy network for the IDB.

Only recently has the program under question made network creation and inter-PI learning a priority. In October 2000, the IDB sponsored a workshop in Washington, DC, for the PIs and relevant program officials with this expressed aim. In just three days, PIs were speaking and working with one another in ways that had been up to then nonexistent. Not only did they engage in collective problem-solving and offer new strategies for one another's projects, but several PIs agreed to share vital program and product information with one another, test-market the products in one another's courses, and explore new areas of collaboration in SME training and research.

At this stage of the program, the IDB should concentrate most of its energies toward keeping this momentum alive and getting the PIs to both aid and push one another. Similarly, it would be advisable that the IDB review its other multi-organizational programs to identify ways to build a cohesive learning network among the participants.

#### **IV. Concluding Remarks**

The IDB should adopt a two-track policy toward the PIs in the identification and penetration of SME niches. First, all projects are at a sufficiently mature stage to use some more systematic surveys of market demand. IAE, Siglo 21, and Dom Cabral (with respect to its activities outside of Brazil) are all planning such surveys currently. The MIF and IDB should closely monitor these surveys and their results. Market-demand identification must be strengthened within the project-development process. The MIF and IDB need to devote greater energy and resources not only to monitoring this process but even more to helping the PIs articulate their development methods and improve the interactive link between content and client generation.

Second, MIF and IDB should make every effort to strengthen the network ties among the PIs, taking advantage of the momentum generated from the October 2000 workshop. A good place to start would be to have the PIs share their survey instruments, designs, and subsequent information with one another.

Beyond these strategies for the existing PIs, the MIF and IDB should also consider how to improve the diffusion and replication of these programs and products into other Latin American countries. The website “SME Forum” is clearly a step in the right direction. But use of the website assumes that a great deal of motivation and initiative already exists on the part of potential users. In turn, the MIF and IDB should encourage their officers in various countries to contact the leading public and private organizations linked to SME development and begin discussions on how existing projects can be transferred into the new contexts.

## **Exhibit 1**

### **The MIF Regional Management Training Program**

#### **Executing Agency:**

Management training institutions and the Inter-American Development Bank through the Regional Technical Cooperation Division of the Integration and Regional Programs Department (INT/RTC).

#### **Recipients:**

Training institutions and small- and medium-sized enterprises.

#### **Objectives:**

Specific objectives of the program are to:

1. promote sustainable market-driven solutions to management training for SMEs;
2. test new methodologies and products in management training and sustainable development;
3. leverage public/private sector resources necessary to create and disseminate successful models and environmentally sustainable solutions; and
4. foster creation of a network of management and sustainable development training providers throughout the region to encourage mutual learning and collective innovation for SMEs.

#### **Description:**

This Program aims to help management training institutions throughout Latin America in the design and dissemination of successful approaches in management training and sustainable development for small- and medium-sized enterprises (SMEs). To meet its objectives the program consists of two components: (i) demonstration projects and (ii) dissemination of successful approaches.

Under the first component, the Bank approved a number of demonstration projects that were executed by training institutions throughout the region that have demonstrated leadership in the field of executive education, management training, and/or sustainable development through a competitive bidding process.

Management training institutions were invited to submit detailed project proposals with emphasis on technical assistance, local capacity building, product development, and diffusion of new practices to the SME sector. The specific objectives of the demonstration projects are noted above. A demand analysis of the training needs of potential SME participants, including a sectoral overview of the SME target group in the particular country or sub-region was a prerequisite for demonstration project approval. Institutional matching of 50% of the total cost of the demonstration project was also be a requirement: 35% of this counterpart contribution would

be in cash, 15% could be in-kind. MIF resources were not available for financing the direct costs of training.

Illustrative types of activities that could be supported under the demonstration project component included: research and development of innovative and cost-effective management training and/or sustainable development training products, methods, and materials; training of trainers through targeted short courses and workshops for faculty and private sector representatives; collaborative programs and partnerships involving other institutions, local educational agencies, professional associations, businesses, firms, or combinations thereof to diffuse new training products, for the development of management expertise and sustainable development among the SMEs sector; and development of methods for leveraging additional resources from public/private sources to cover some of the costs of training for SME owner/managers.

Under the second project component, the methodology and results of the demonstration projects are being made available to other interested organizations and persons. To disseminate successful approaches and products, this component consists of the following activities:

1. conduct three regional workshops in selected themes that have immediate applicability for replication in business management training and sustainable development for SMEs;
2. establish and maintain an electronic web site (<http://lanic.utexas.edu/pyme/>) on the Internet to provide up-to-date information on training products, methods and materials under development through the demonstration projects, as well as facilitate interchange of information on the status of these projects; and
3. prepare and distribute a quarterly newsletter, among interested training institutions involved in SME management training and sustainable development.

**Benefits:**

The benefits of the proposed program are as follows: (i) it is innovative in nature as it contemplates the development of new products, pedagogical approaches and training as well as training strategies based on the needs of the SME sector in Latin America: (ii) it will establish what the realities of the current marketplace are for management training among small- and medium-sized businesses, and will disseminate best practice methodologies and products to address imperfections in this market: (iii) it will determine what the financial impediments are to meeting the demands of this market; and (iv) it will create a regional network of providers of goods and services for the SME management training market that has previously not been available.