

INCAE

**Latin America's Premier Graduate School
of Management**



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Preface

Roberto Artavia

This collection of essays documents the history and mission of INCAE, Latin America's premier graduate school of management. In 1964, the cooperation of Central American leaders, President John F. Kennedy, the Harvard Business School, and the United States Agency for International Development (AID) led to the creation of a small business school to serve the growing managerial needs of the Central American isthmus. Those Central Americans who backed the project had a sense of the future. At the time not even Japan and the countries of Western Europe recognized the increasing importance of what was being taught at the Harvard Business School—analytical skills to manage large and complex organizations.

INCAE has flourished. Today it is roughly the same size as many of the top 10 business schools in the United States, in terms of students, faculty, residence programs, and executive seminars. Moreover, it is truly international. I think of a recent addition to our faculty: a Colombian with an MBA from the Instituto de Estudios Superiores de la Empresa (IESE) in Barcelona, a doctorate from Northwestern University, and research and teaching experience in Japan and France (as well as here in Latin America). Today at INCAE we have students from Argentina and offer seminars in Venezuela, while we remain true to our original mission to meet the managerial needs of Central America. More important, we believe we are the best in Latin America at what we do: teaching and conducting research on business administration, the production and dissemination of technology, economics, environmental management and sustainable development, and governance and public policy.

INCAE's success is due to the support of many institutions and individuals, and we at INCAE are grateful for this commitment to our work. The institutions that have supported INCAE include: United States Agency for International Development (AID), World Bank, Inter-American Development Bank, Inter-American Foundation, Stephan Schmidheiny and the Avina foundation, European Community, German Society for Technical Cooperation (GTZ), Swedish International Development Authority, Ford Foundation, John D. and Catherine T. MacArthur Foundation, Foundation for Management Education in Central America, Fundación Gran Mariscal de Ayacucho (of Venezuela), and the governments of Latin America. Many multinational corporations have been generous supporters, too, as have been small- and medium-sized Latin American companies. Individual supporters come from the ranks of both the private and public sectors, prominent among them our former students.

The ensuing pages recount INCAE's history, to acknowledge where we have come, from to attest to what we are doing, and to suggest where we hope to go.

The Birth of INCAE: The View from Harvard
George Cabot Lodge

Since the birth of INCAE was closely tied to the beginning of my career at Harvard Business School, the reader will perhaps forgive the autobiographical tone of these reflections. And right at the start it should be said that both beginnings were marked by uncertainty; there were many reasons to doubt that either would succeed. I like to think that the infants nourished one another.

In February 1963, I joined the faculty of Harvard Business School (HBS) after an unsuccessful run for the United States Senate. I had lectured there before, but the school had a new dean, Professor George P. Baker, who, I imagine, was none too eager to take on a high-risk non-academic like me. Nevertheless, he hired me, stressing it was for one year only, to teach about business-government relations, and serve as assistant director



of what was then called the division of international activities under the direction of the late Professor Harry Hansen. The division oversaw the various schools of management Harvard had helped to start in many countries: for example, the Philippines, India, Turkey, and later Iran. Hansen and Dean Baker asked me to explore what we could do in Latin America.

Having served in the administration of President John F. Kennedy as Assistant Secretary of Labor for International Affairs, I had many friends in Washington, one of whom was Walt Rostow. He was at the time head of the State Department's policy planning staff. Walt was delighted when I told him of the School's desire to be useful and suggested that Central America might be an appropriate place for us to go. President Kennedy had just made an important speech in San José, Costa Rica, pledging United States assistance for the Central American Common Market and a number of regional development agencies. The need for managers was great, said Walt, and funding for Harvard's effort could undoubtedly be arranged through the Agency for International Development (AID) as part of Kennedy's Alliance for Progress.

The Central American site seemed promising to me because of the research and learning opportunities it offered HBS—six very different countries, in varying stages of development, engaged in creating new regional organizations to manage their increasing interdependence. But I knew that Dean Baker and our faculty would be concerned about government funding. The School's other international ventures had been underwritten by foundations. This would be the first to involve government, and the faculty that would have to approve the project was somewhat allergic to government contracts, fearful of red tape, bureaucratic meddling, and the like. So I asked Walt whether the invitation to undertake the project could come from the President, supposing, rightly as it turned out, that such an invitation would provide us with desirable leverage in negotiating an acceptable contract with AID. The normal AID contract for such "institution-building," for example, stipulated that a degree-granting program should be up and running within three years. I knew we would need considerably more time than that to prepare indigenous teaching material, train Central American faculty, and organize the business community for the major effort that would be required to create a successful institution.

Walt allowed as to how his secretary was sick that day so that I could use her typewriter to type whatever letter I would like President Kennedy to send, and he would see to it that it was signed. This I did. It said, in part:

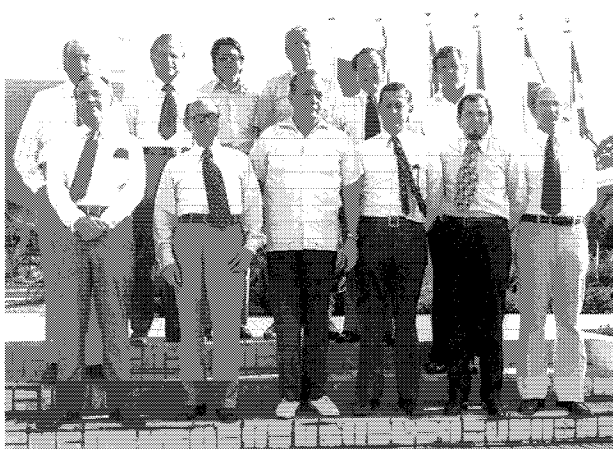
My recent talks with the Presidents of the Central American nations reemphasized our mutual concern for the rapid development of human resources in this critical area. The participation of the Business School in a program to strengthen management would constitute a vital step toward sound regional integration, a major objective of the Alliance for Progress.

My bosses at school—Dean Baker, Senior Associate Dean George Lombard, and Harry Hansen—were excited by the letter. They appointed two senior professors—Henry Arthur and Thomas C. Raymond—and me to meet with business and university leaders in Central America to measure the enthusiasm of Central American business and university leaders for Harvard helping establish a graduate school of management. Without regional commitment the project would obviously be impossible.

Our visit in the spring of 1963 received mixed reactions. Many of the business people were unclear about what management education was. They doubted, in fact, that management could be taught; it had to be learned by experience; and, while polite, they were clearly dubious that professors from the United States, ignorant of Central America, would be of much help. University officials were less

enthusiastic. They regarded the case method and field-based research—actually getting out into the fields and factories of Central America to see what managers did—as far removed from their theoretical conception of higher education. At the same time, however, the universities were unanimous in asserting that any such graduate school in their country would have to be a part of their university. There was little doubt in our minds that whatever institution might evolve, it could not function effectively within a national university and that a regional focus had the great advantage of providing independence from both the university system and from any one nation.

Before going to Central America, I had interviewed a number of American business leaders with experience in the region to get the names of those whom they thought I should see. On everyone's list was Francisco de Sola of El Salvador, affectionately known simply as "Don Chico." "If he is with you, you cannot fail," was the general opinion.



My first meeting with Don Chico was at a reception in the residence of Murat Williams, then American ambassador to El Salvador. Don Chico took me aside into a small room and asked me to describe our project. I said that we were there to find out whether Central American business leaders would be interested in receiving the help of the HBS to establish an institution to train managers. It would be their institution, not Harvard's. It would require their hard work and commitment. Harvard could only help. We would initiate a research effort in Central America to generate the knowledge and the teaching material that would ensure that the institution would be focused on Central American needs and problems. We would also help train teachers. I described a teaching case and how it worked. He asked if we could conduct some short programs in the region to demonstrate to the business community what management education was. Our conversation went on until close to midnight. Finally, he drew back and said: "There is no question. We must do this." That, I think, was the moment that INCAE was conceived.

We visited all six countries and found a nucleus of outstanding managers who were as enthusiastic as Don Chico. They became the first governing body of INCAE, even though at that stage the institution was nameless and without form.

The three of us reported to Deans Baker and Lombard that the prospects for management development in Central America were good. We suggested that the next step was a two-month in-depth study of the specific problems that Central American managers faced in the several functional areas: marketing, finance, labor relations, business policy, and the like. During the summer of 1963, I took a team composed of nine HBS doctoral candidates and MBA graduates to Central America. With headquarters in Guatemala City, we covered each of the six countries, developing case leads, starting to write a few cases, and interviewing more than 400 managers in each country, confirming their support for the process that resulted in INCAE.

My own research in Veraguas Province, Panama, was facilitated by Fernando Eléta, an early supporter of INCAE, who later became foreign minister of Panama. He put me in touch with the new bishop of Veraguas, Marcos McGrath, who later became the country's archbishop. Together with groups of HBS students, I worked with the bishop in Veraguas over the next three years on a study of how change is introduced into rural communities. A number of cases and a book, *Engines of Change* (Knopf, 1970), flowed from this project. The book helped to extend my stay at Harvard and contained the idea for what became the Inter-American Foundation, a new government agency established in 1971, which became a generous supporter of INCAE.

Managing the introduction of change seemed to me of paramount importance to Central America and thus to INCAE; Francisco de Sola and the other members of what became INCAE's Board of Directors agreed. This commitment to the management of change as well as the case method itself has meant that INCAE has never been the captive of any ideology—capitalism, socialism, or whatever. It also established early that INCAE's primary concern was to train managers—for both the public and private sectors—in order to promote the welfare of the communities it served.

The report that emerged from the summer's work was presented to the Harvard faculty in the fall along with a recommendation that the school proceed with the project under an AID contract, in particular one sweetened by the involvement of President Kennedy. Dean Baker had also sent Professor Abraham Zaleznik to Central America during the summer, and he returned with his own report opposing the project. As I recall it, he argued that Central America was the wrong place, that we had little useful knowledge to impart, and that the region was not ready for management development. We had a great debate in the faculty meeting in the fall of 1963, presided over by Dean Baker and attended by Harvard President Nathan Pusey. After the vote—which was in favor—we gathered at the Dean's House for refreshment, celebration, and a long-distance call to Don Chico, who was as happy as we were.

The next phase had several related parts: a series of three- to five-week programs for the top leaders of both business and government from the six countries; selection of young teachers from Central America to be trained at Harvard; and an extensive case-writing and research program. The executive programs, which were taught by Harvard professors, showed the region's leading managers what management education was and why it was important for them and their companies. The programs were also a way of prefabricating an alumni for what came to be INCAE, securing

broad-based and enthusiastic support and commitment throughout the region, and opening doors for research and case writing. The first program was held from July 1 to August 7, 1964, in the colonial city of Antigua, Guatemala, in an old convent that had been converted to a lovely hotel. Those of us from Harvard who taught in it had an exceptionally exhilarating experience, given the intelligence, hard work, and passionate concern of the participants, led as they were by Don Chico. On July 30, during that program, the Board of Directors of INCAE was formed from among the participants and a decision was made to establish a permanent institution for the training of managers, primarily in business but also in government.



Harvard professors in these early programs included: Milton P. Brown, E. Raymond Corey, A. Richard Dooley, Thomas Kennedy, George A. von Peterffy, Dan Throop Smith, Renato Tagiuri, Philip H. Thurston, Hugo E. R. Uyterhoeven, Clark L. Wilson, and John R. Yeager. Others who have played important roles in INCAE's development over the years include: Professors Robert N. Anthony, James E. Austin, David F. Hawkins, and James Heskett.

Antigua was followed by the program in Boquete, a picturesque town in the mountains of northern Panama. The program was held in the local high school, an open air structure with a roof but no windows. In addition to the participants, classes were attended by many of the local people who sat on the side quietly observing the strange doings. One of the more challenging aspects of the Boquete

program was the erection of blackboards, which Harvard professors use prodigiously. Two-by-fours had to be nailed together to reach from the floor to the ceiling, which was about 40 feet in the air, then braced, framed, and made to hold the massive boards that were flown up from Panama City along with a rug to dampen the noise. My Spanish was none too good and my carpentry worse; nevertheless, even though local carpenters found my requirements appalling, we finally erected a structure that withstood the pounding my colleagues gave it. The simultaneous interpreters—from New York in those days—arrived to discover that none of their equipment worked. Happily a highly skilled electrician with the local telephone company passed by at the crucial time and all was saved.

There were many moments like this in the early days of INCAE, times when the effort seemed fragile indeed, but on the whole its birth was blessed by good fortune, generously strengthened by Francisco de Sola's determination. For him there was no turning back. During times of discouragement, in his quiet and thoughtful way, he rallied the dispirited and kept the movement going. Boquete was followed by programs in San José, San Salvador, and Managua.

In the fall of 1964, INCAE directors decided that the institutions should be located in Nicaragua. There had been much debate with several countries making proposals to attract INCAE. Don Chico himself was, I think, partial to Guatemala, but the board was swayed by two factors: the Nicaraguan business community's pledge of free land and \$250,000, and the fact that Nicaragua had fewer regional agencies than the other countries. A team from the Harvard School of Design arrived, was flown over central Nicaragua, spent days driving here and there, and eventually recommended the site on which one of INCAE's campuses is today, 11 kilometers in the highlands outside Managua.

The History of INCAE
Forrest D. Colburn and Eduardo Montiel

President John F. Kennedy's diplomatic mission to San José, Costa Rica, in March 1963 launched INCAE. Kennedy's visit had an apocalyptic cast. Just as his plane landed, the Irazú volcano erupted and began to spew ash on the capital. During his visit, and while the volcano continued to erupt, Kennedy spoke with the Central American leaders gathered in the city about political stability and economic development.

At the meeting, the Central Americans voiced their desire for a regional, advanced management school. The political and economic leaders of the region had been working toward cementing a Central American Common Market (CACM) since the late 1950s, and it was suggested that companies growing in their expanded market would benefit from a familiarity with modern administrative practices. Moreover, a multinational school of management would in itself contribute to further economic integration.

On March 19, 1963, the Presidents of Nicaragua, Panama, Costa Rica, El Salvador, Guatemala, Honduras, and the United States signed a document entitled "Declaration of Central America." Although the document did not mention INCAE by name, it read in part:

The Presidents of the [Central American] Isthmus resolve to strengthen as greatly as possible the regional Central American institutions so that they can play a fundamental role in the training of necessary personnel to bring to fruition the plans for integrating the Isthmus.

When he returned to Washington, Kennedy drew on his Harvard ties to initiate the project. In April of 1963, he contacted then-Harvard Business School (HBS) Dean, George P. Baker, and asked him to pursue the establishment of a management program in Central America based on the Harvard model.

Harvard was well situated for taking on the challenge of creating a Central American management school. HBS had created a Division of International Activities in 1963. At Harvard, George Cabot Lodge, a former Assistant Secretary of Labor for International Affairs, was asked to explore the feasibility of a Central American management school. During the summer of 1963, a nine-member team headed by Lodge surveyed 400 Central Americans, among them the rectors of the six national universities, selected deans, local government officials, and business leaders.

Central American business leaders formed a Board of Directors representing Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, and Panama. Three individuals from each member country had met with Lodge's research group in Guatemala City in 1963, and when they returned home they formed national committees to promote the idea of INCAE among business leaders. Each nation selected a representative to travel to San Salvador in July 1963. The gathered representatives elected Salvadoran businessman, Francisco de Sola, Chairman of the INCAE Board of Directors. "Don Chico," as he was nicknamed, had been present at the meeting between Kennedy and the Central American presidents in Costa Rica, and he had a firm view of the way INCAE's development should evolve. He led the INCAE Board of Directors until his death in 1983.

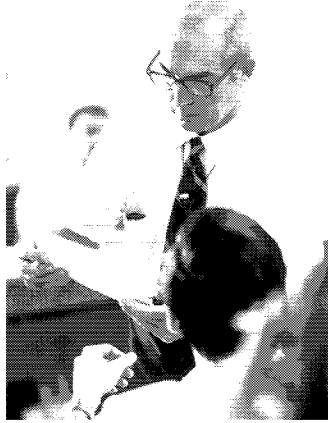
From the creation of the institution, therefore, INCAE has been international. Its logo, a hexagon, expresses the parity among its six original members: Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama.

The Board of Directors set about gathering financial and political support from the Central American business community. Beginning in June 1964, at the same time as the first advanced-management program (PAG by its Spanish initials), the Central American private sector launched a fundraising drive with a goal of \$2 million. The Nicaraguan business community granted the land on which the first campus was to be built, a plot of 100 *manzanas* (170 acres). The tradition of private fund-raising was new to the region, and the Board's sheer tenacity was responsible for its success.

HBS's renowned case-study method was used for the project's first undertaking—a six-week advanced-management seminar offered in Antigua, Guatemala, from July 1 to August 7, 1964. It was funded by the United States Agency for International Development (AID) through its Regional Office for Central America and Panama (ROCAP), although each of the 45 participants paid a thousand dollars to attend the seminar.

INCAE professor emeritus Robert Mullins (who received a DBA from Harvard in 1967) recalls that the need arose to translate and standardize business terminology, which varied from country to country. Mullins reports, "We would spend many hours selecting the most appropriate word for the case situation, conscious that we were setting the precedent for Central America." The INCAE terminology, taken back by graduates to their countries and disseminated, was another way in which INCAE linked the region.

From the outset, the Harvard approach valued practicality over theory. Dean Baker said in his address to the representatives of the 45 different companies present at the outset of the program, "We come in hope of bringing you some methods of thought, some techniques for analysis, some new approaches toward your problems which will be helpful." The HBS faculty gave instruction in English with the



aid of simultaneous translation by four translators from the United Nations. Despite their harried schedule, which ran from 8 o'clock in the morning until 11 at night, the participants were enthusiastic about the seminar. HBS Marketing Professor E. Raymond Corey reported that the participants "sopped up material like a sponge." HBS faculty went on to give seminars in Boquete (Panama) and Panama City, San Salvador, and San José. The second seminar, given in Boquete, produced a mission statement that read in part, "We must ensure that all we do in the name of accelerated evolution promotes the cause of progress and freedom in our countries."

Building a Campus

President John F. Kennedy, who was assassinated only eight months after his Central American visit, seemingly had limited plans for the Central American management school. The letter of April 1963 to Dean Baker had only called for "a high-level program to improve management." Building on the support of the over two hundred "alumni" who had attended the advanced-management seminars, Lodge began to expand the original mission into the establishment of a permanent institution. Concurrently, the Central American business community continued to raise funds by having the seminar alumni solicit support from the private sectors of each of the member countries.

Harvard's International Teaching Program (ITP) was meanwhile preparing seventeen Central Americans to teach management via the case method. At first, INCAE professors were expected only to have their master's degrees, but later the Board asked that all professors have doctorates. These teachers were INCAE's intellectual capital, and Don Chico was busy raising the funds to establish a plant for INCAE.

The initiative to build INCAE's first campus was a three-part effort by Harvard, AID/ROCAP, which provided a \$10 million loan to the Central American Bank for Economic Integration (CABEI), and Central American business leaders, who provided a \$2 million endowment fund. The Nicaraguan business community provided the support that made the establishment of INCAE in Managua possible. The actual construction was carried out with the loan granted by CABEI.

The site chosen for INCAE was Montefresco, in the foothills of Managua. Located on the Carretera Sur, the highway that winds out of Managua up the surrounding mountains, the turnoff to INCAE is just where the highway starts to climb steeply on the way to the city of Diriamba. The campus affords a sweeping view of Managua and Lake Managua.

Again, initial expectations were modest; the idea was to offer a nine-month program leading to a master's degree or a certificate. By the time Dean Baker flew to Managua for the ground-breaking exercises in July 1967, however, INCAE (now the school's official name) was preparing itself to offer a two-year program of study, equivalent to the MBA offered at United States business schools. The boldness of this decision lay not only in its transcendence of the original goals for INCAE, but also in the resulting increase in faculty commitment and student tuition. The decision, in fact, doubled student tuition, which was already high for Central America.

INCAE was the first educational entity established specifically to foment economic unity among the nations of the region. Its novelty also lay in its residential nature. Breaking with Latin American tradition, INCAE was constructed to house its students on-site. Bungalows with tile roofs, a dining hall, a library with

459 books given by the HBS, and classrooms equipped for simultaneous translation accommodated the needs of full-time students who came, often with their families, for the intensive program of study.

During 1967, HBS professor Clark Wilson, who was to serve as INCAE's first rector, traveled about Central America to recruit personally many of its first students. Angel Interiano, a member of the first class, remembers hearing



about INCAE from a friend in a San Salvador cocktail lounge. Clark Wilson eventually met with Interiano and convinced him to give up his scholarship to study economics in Brussels and instead to come to INCAE. Interiano recalls:

Clark Wilson said that all Harvard MBAs, upon returning to active life, always earned more than they had previously. He knew of one case where someone had gone back to work and was paid one dollar more than before, but it was more. In addition, Wilson said that INCAE would give us the opportunity to find interesting jobs when we returned to our countries.

Interiano and the rest of the first class entered INCAE in January 1968, although the campus was still under construction. They were instructed on

the sixth floor of the Central Bank of Nicaragua in Managua and lived in the Lido Palace Hotel overlooking Lake Managua until the campus was completed. INCAE bought a bus to take them to and from the Bank. The 42 matriculated students came from all five countries in Central America, as well as from Panama. Three women were among their number (only one of whom, Virginia Zecca from Costa Rica, was to graduate and, incidentally, to marry Interiano). In July 1968, Ernesto Cruz, a Nicaraguan lawyer who had received a doctorate in political economy and government from Harvard, took over the helm of rector from Wilson.

As the institute began to fulfill its mission, its unique character evolved. Although many of the professors in the early years were North Americans, Latin Americans trained at HBS increasingly filled out the ranks. Professors, some with the initial help of translators, increasingly gave instruction entirely in Spanish. Cases written by INCAE's faculty augmented translated Harvard cases.

INCAE offered the essentials of an MBA education, including business policy, finance and control, marketing, production, and organization. In addition, specifically designed courses, such as development banking and finance, and agri-business management, catered to local needs. The development banking and finance program was a joint effort of the Inter-American Development Bank (IDB) and INCAE. The agri-business specialization, established in 1972, generated the most extensive collection of cases in all of Latin America dealing with agro-industrial administration. These fields became specializations in the second year of the MBA program, so that interested students could graduate with deeper knowledge in these areas.

From the outset, INCAE's boldness, and its strength, lay in its uncompromised commitment to academic excellence. At first, some potential students were



wary enough of the school's quality to demand that Harvard's name be placed on the INCAE diploma. INCAE, however, quickly established a sterling reputation, and an INCAE diploma was, and remains, respected throughout the private and public sectors of the region.

Crises and Public Policy

In Nicaragua in the 1970s, natural instability was the portent of political instability. Two days before Christmas in 1972, an earthquake shook Managua and left 80 percent of the city in ruins. While the earthquake only superficially damaged the INCAE campus, it did produce a review of its strategy. In the wake of enormous human suffering and the deaths of over 10,000 people, INCAE began to embrace public policy.



Harry Strachan, who was serving as INCAE's Academic Director after receiving his doctorate from Harvard in 1972, set up a national planning board in INCAE's library during the aftermath of the disaster. Strachan worked with INCAE faculty and administrators to assess the damage the shock had wrought on Managua. The public policy mission of INCAE was born in the library during the three days following the disaster. Two weeks after the earthquake, INCAE faculty members working as volunteers with private enterprise and high-ranking members of the Nicaraguan government completed a 24-page preliminary evaluation of the earthquake's damage. The document served as the basis for the planning of the post-earthquake economy in Nicaragua.

In March 1973, INCAE created an Advisory Center under a contract with the Harvard University Development Advisory Service as an independent part of INCAE dedicated to public policy. The first project of the center was a two-year contract with AID to help rebuild Managua. The specific goals of the project were to formulate a strategy to rebuild the national economy, to determine the amounts of foreign aid needed, and to develop new ideas and projects to accelerate the process of recuperation.

INCAE finance professor Nicolás Marín, who received his DBA from Harvard in 1972, says that in the wake of enormous human suffering, "INCAE became more attentive to issues of governance and public policy." The school's vision broadened. Soon INCAE began to work with the other governments of the region.

In the days after the earthquake, opposition to the Nicaraguan leader, Anastasio Somoza, mounted. The country slid into a civil war. The cost of maintaining an international student body and faculty in this highly charged atmosphere was steep. The situation deterred some faculty and potential students from work-

ing at or attending INCAE. In April 1979, students wrote Cruz, informing him that many of them would not return to INCAE for the 1979/1980 academic year. According to the poll that they carried out, the following percentages of students from each country would *not* return to INCAE in Nicaragua: Costa Rica: 76, Honduras: 29; Guatemala: 84; El Salvador: 78; Nicaragua: 51; and other countries: 80.

Nevertheless, INCAE was committed to staying in Nicaragua. The second-year master's students returned on October 15, 1979, and a new class entered on January 15, 1980. In August 1979, the Board of Directors had voted to maintain the school in Nicaragua. Speaking at the graduation of the MAE XII on June 14, 1980, Enrique Dreyfus, President of the Private Enterprise Council (COSEP) of Nicaragua said:

We took on our historical commitment, which was to remain in our jobs, produce for the Nicaraguan people, contribute so that the Revolution is channeled down a path that is truly Nicaraguan, broad, and democratic.

Despite INCAE's commitment to Nicaragua, many feared that the triumphant Sandinista regime would look unfavorably on INCAE. Soon, though, the Sandinistas were coming to INCAE, looking for help in revitalizing the economy.

During these tumultuous years, the INCAE community was intensely engaged in political discussion, with its students running the gamut from Sandinistas to conservatives. Yet the institution strove to maintain its neutrality. Predictably, many new INCAE cases focused on nationalized industries, but INCAE was neither a political opponent nor proponent of the Sandinista regime. In June 1980, INCAE began to give seminars to the Ministry of Agricultural Development and Agrarian Reform, and out of these seminars a working relationship developed between INCAE and the Sandinista government.

When Harry Strachan took over as rector in January 1981, he met with Sandinista officials and made clear INCAE's commitment to academic freedom. Strachan agreed to continue operating INCAE in Nicaragua if the Sandinistas respected the academic freedom of the institution, guaranteed the personal freedom of the students and faculty, and allowed the institution to maintain its financial independence. These demands were feasible because INCAE had already begun to give valued seminars to the Sandinista government.

Still, the situation in Managua during the early 1980s was troubling. Many potential students were deterred by Nicaragua's political strife. Some faculty began to get edgy, too. Also, the institution had increasing financial difficulties as the Nicaraguan economy began a downward spiral.

Perhaps one of the most amusing INCAE cases ever written is about the effort of INCAE students in Nicaragua to come to Costa Rica for a soccer game in

February 1986. The cost of paying for visas, which then ran at \$20, or a fifth the monthly salary of a Nicaraguan professional, was prohibitive for many students. The students in Nicaragua solved this “finance problem” by each purchasing three bottles of Flor de Caña (Nicaragua’s



celebrated rum), the legal amount they were allowed to bring across the border, and selling them for a handsome profit in Costa Rica.

In the early 1980s, INCAE faced the dilemma of trying to preserve the diversity of its students and faculty while still serving the Nicaraguan community. The answer unfolded slowly. INCAE began to consider sites in Panama, Guatemala, and Costa Rica for a second campus. Otto Castro, then the director of the INCAE committee of Costa Rica, tells the story of how the INCAE campus was established in Costa Rica. In September 1981, Costa Rican President Rodrigo Carazo met with Otto Castro, as well as with Walter Kissling, the Costa Rican Chairman of the INCAE Board of Directors, and Jorge Walter Bolaños, an INCAE alumnus who was then manager of the Costa Rican social security system. In this first meeting, Carazo expressed his willingness to guarantee INCAE international mission status, meaning that INCAE would be recognized as an international institution if it were to establish a campus in Costa Rica. Its faculty would enjoy status similar to that of diplomats.

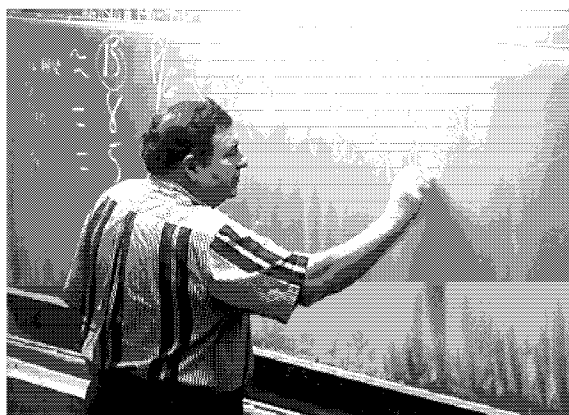
In 1982, the Costa Rican presidency passed to Luis Alberto Monge, who had signed a letter before assuming office agreeing that INCAE would be allowed to establish a campus in Costa Rica. Monge was under the impression that the United States government had given \$25 million to Costa Rica, and he stated during his campaign that if he won the election, he would give \$10 million of this sum to INCAE. Monge’s letter was presented to AID. Impressed AID officials donated \$2.5 million for the founding of a campus in Costa Rica.

The land chosen for INCAE in Costa Rica was being reclaimed by the Banco Nacional de Costa Rica. Francisco de Sola and Walter Kissling negotiated INCAE’s purchase of the debt, which then amounted to some \$500,000 and an additional 70 million *colones*. Monge organized a lunch with selected ministers

and members of congress, at which then-INCAE Rector, Marc Lindenberg, made a presentation about the institution. The entire congress was invited to a subsequent dinner, at which members of the faculty and national committee had the opportunity to speak to each guest personally. Shortly thereafter, the government of Costa Rica agreed to assume the debt and give INCAE the land.

The AID grant funded the construction of two main structures—an administration building and a classroom building. The students were to live in houses already present on the tract of land (as part of the former Costa Rican Racquet Club). Monge placed the first stone in the ceremonial inauguration of the new construction, and he was awarded a *Doctor Honoris Causa* from INCAE in recognition of his efforts in establishing the INCAE campus in Costa Rica.

In the fall of 1983, the second-year students, who had begun their first year in Nicaragua, continued their studies at the Alajuela campus. In January 1984, the first-year students began their course of studies in Alajuela. In November 1983, INCAE initiated a one-year administration program in Nicaragua. Referred to as the PAF (Program of Functional Administration), it was an intensive program taught by many of the same professors who taught in Costa Rica.



Despite the need to cope with the repercussions of the crises in Central America, INCAE responded to initiatives (and sometimes searched for them) outside of the region. Seminars were offered as far afield as northern Mexico and Paraguay. In particular, Ecuadorians were most interested and appreciative of INCAE. INCAE first offered its advanced-management program to the Andean nations in 1974 in Ibarra, Ecuador. In 1980, INCAE and the Central Bank of Ecuador collaborated on a training program in a joint effort which lasted four years.

INCAE subsequently signed an agreement with the government of Ecuador in October 1983. To reach this agreement, INCAE worked with Alfonso Barrera, a former Minister of Foreign Relations, and FONAPRI, the government agency that carried out feasibility studies. As the training programs with the Central Bank concluded, these two contacts contributed to the creation of a national committee and the incorporation of Ecuador as a member country of INCAE (joining the five Central American countries and Panama). Ecuador began to send a considerable number of students to INCAE's MBA program and to its executive education programs.

Contributing to Conflict Resolution

Although INCAE had moved its main campus to Costa Rica, the institution did not forget the lessons it had learned from its twelve years in Nicaragua. INCAE enriched its MBA program with classes in business economics and additional classes in public policy. Concurrently, INCAE began an ambitious program to assist small firms, including those in the informal sector. In addition, the one-day to four-week seminars that INCAE offered throughout Latin America frequently brought together actors from the private and public sectors.

In an effort to contribute to ending armed conflict in Central America, INCAE, with the leadership and personal involvement of Lindenberg, held “dialogue seminars,” special seminars that attempted to sort out the competing demands of government, opposition political parties, military, business, press, church, labor unions, and, most strikingly, guerrilla groups. After one memorable “session” in El Salvador, guerrilla leaders and representatives of the private sector confessed that the INCAE event was the first time the two sides had sat together and spoken to one another. It was the beginning of conversations which resulted in peace accords.

In the 1980s, INCAE played a pivotal role in supporting both the public and private sectors of each country. This work was significant in a decade, often called the “lost decade” for Latin America, which saw political strife and violence weaken Guatemala, El Salvador, Nicaragua, and Panama.

In January 1988, the Alajuela campus was the site of peace talks that eventually led to regional peace accords among the Central American leaders. In INCAE’s archives is a letter of gratitude signed by all the presidents of Central America, thanking the Institute for contributing to peace in the region. Political neutrality and intellectual integrity enabled INCAE to contribute to the resolution of the painful crises of the 1980s in Central America. Yet throughout the difficult period INCAE did not shirk from politicized issues of economic importance. Also, the institution, through skillful leadership, managed in this most difficult era to continue to train managers—and to keep itself afloat.

***Economic Competitiveness
and Sustainable Development***
Forrest D. Colburn

Latin America was battered in the 1980s by an economic recession of a magnitude not seen since the depression of the 1930s. Violence in Central America sorely exacerbated economic difficulties in the isthmus. The defeat of the Sandinistas in Nicaragua's February 1990 elections was, in retrospect, the end of the civil wars that ravaged Central America in the 1980s. Peace brought the need for economic recovery. Yet economic recovery was even more of a challenge because the reigning political and economic paradigms were upset. Political and economic liberalism—democracy and unfettered markets—took root and did so amidst great hope for a better future.

INCAE, under the leadership of Brizio Biondi-Morra, who served as rector from 1991 to 1999, came to play a prominent role in explaining to the business community and political elite of Central America the implications of moving from “closed” to “open” economies, including the ensuing need for political reforms. INCAE also played a significant role in explaining the necessity of sustainable development, of developing societies and economies that could not only find a niche in the world economy, but that could do so with social harmony and with respect for the environment. To compete successfully in international markets, there was more of a need than ever for capable managers, and INCAE flourished, with its students increasingly arriving from outside Central America, coming even from Mexico and, especially, the many countries of South America. Faculty were invited from far afield to offer seminars and specialized in-house training. INCAE became increasingly “continental.”

A professor at the Instituto de Estudios Superiores de Administración (IESA) in Venezuela noted that INCAE began the 1990s, a decidedly new era in Latin America, with two strong advantages. First, he explained, in the fervor of political nationalism and radicalism of past decades, INCAE never severed its strong links to prominent North American universities, and to Harvard University in particular. Second, he said, from its inception INCAE has been “international,” and the crisis in Central America in the 1980s forced it to become even more international—by seeking students and opportunities for faculty research (and funding for the research) outside the region. While these two characteristics of INCAE, coupled with its commitment to academic excellence, led INCAE to be well positioned for the consolidation of democracy and for economic recovery in Latin America, it was the vision of Brizio Biondi-Morra, shared by the faculty, that led INCAE to make



an intellectual stake, to provide a beacon for understanding the shift in political and economic “rules of the game.”

With the movement to open economies, Latin America needed to have at least certain industries that could be competitive, earning foreign exchange to pay for needed imports, as well as generating employment and other economic benefits. Macroeconomic stability, measured commonly simply by the control of inflation, was clearly not enough to ensure economic growth. The “micro-economic” foundations of development entailed—in a market economy—successful firms and sectors of the economy. The experience of Nicaragua, though, showed that economic growth alone did not ensure broad-based development: for some 15 years Nicaragua had an impressive annual growth rate of

6 percent, yet the country imploded. Development has to be sustainable—socially, as well as economically and environmentally.

In late 1994, Brizio Biondi-Morra traveled to Cambridge to invite the distinguished Harvard Business School professor, Michael E. Porter, to Central America, offering no money, only, recalls Biondi-Morra, “the opportunity to change the economic debate in a needy and deserving part of the world.” Porter graciously accepted the offer. He promptly came to Costa Rica to meet with the region’s presidents, key representatives of their economic teams, and leaders of the private sector. Porter presented his conceptual framework for the economic growth of nations. This conference, part of which was limited to the heads of state and another part which was attended by 350 prominent individuals from throughout the region, was followed by an INCAE-led research effort.

INCAE’s research focused on identifying the factors that contributed to (or inhibited) the competitiveness of companies, sectors, and countries of the isthmus. The goal was to identify the principal challenges confronting the countries in achieving high and environmentally sustainable rates of economic growth. The fruits of the research were presented to the Central American heads-of-state (and their economic teams) in the fall of 1995 at a meeting held at the Harvard Business School. A vision for positioning Central America in the global economy was proposed and discussed. Based on a common framework—fashioned by Porter and the faculty of INCAE—government leaders identified a number of areas in which coordinated regional action could improve productivity, and so expectations of economic growth.

INCAE committed itself to providing necessary research and serving as a catalyst for region-wide policy reforms. Among other tasks, INCAE coordinated the establishment of public-private sector committees which formulated policy recommendations in specific areas, such as transportation infrastructure, custom service, investment promotion, and the promotion of tourism.

In June 1996, the scope of the project was broadened with an agreement between INCAE and the Harvard Institute for International Development (HIID). Three additional areas were addressed: macro-economic stabilization and capital market development; environmental policy and regulation; and reform of the state. The legitimacy of the project was enhanced by the involvement of the director of HIID, Professor Jeffrey Sachs, in promoting greater macro-economic stability and in suggesting how capital markets could be further developed in the region.

Financial resources to sustain and nurture the ambitious project came from a variety of sources, but most prominently from the Swiss industrialist, Stephan Schmidheiny, through his Grupo Avina, and the Central American Bank for Economic Integration. As an outgrowth of the project, INCAE established the Latin American Center for Competitiveness and Sustainable Development in Latin America (CLACDS), which is housed in its own building, named for its donor, Stephan Schmidheiny. The handsome building was dedicated in 1999. CLACDS forms an integral part of INCAE, and all INCAE faculty participate in its many activities.

The support of Stephan Schmidheiny for INCAE has been most helpful. Biondi-Morra recalls meeting Schmidheiny at a dinner held by former Panamanian president, Guillermo Endara. After dinner, the two continued their conversation until late in the evening. Schmidheiny was impressed with INCAE's work and has become a partner, providing financial support and his recognized leadership in sustainable development.

The INCAE-Harvard project for stimulating economic competitiveness and sustainable development has attracted considerable attention. *The Economist* reported on the project in its June 21, 1997, issue:



Central America's newest attempt at integration is different and, compared with other sorts of regional bonding around the world, unusual. It concentrates not just on free trade but on common microeconomic policies such as deregulation and harmonised taxes. Rather than look to libertarian economists from the University of Chicago, as reformers farther south have done, the Central Americans take inspiration from Harvard University's business school and INCAE, a like minded one. Michael Porter, a Harvard professor who has become the region's economic guru ... thinks that the region should concentrate on microeconomic reforms that boost productivity. Spurred by monthly seminars led by INCAE, which acts as a sort of reform secretariat, ministers are devising common strategies to deregulate, attract investment, reform their pension schemes, and, more conventionally, to join electricity grids and telecoms networks, and to build roads.

More suggestive, the INCAE-Harvard project has led to inquiries for information and suggestions from the Caribbean, Mexico, Brazil, Argentina, and even the Middle East.

The INCAE-Harvard project generated a burst of activity in Central America. It fostered dialogue about economic development within and among the countries of the isthmus. Stimulating ideas and examples from abroad about how to promote development have been introduced, too, into the dialogue. There are even identifiable changes in public policy that can be traced to the project, such as regulations governing international commerce. However, as the Guatemalan economist (and member of INCAE's board of trustees) Richard Aitkenhead has observed, the principal outcome of the project is that it contributed significantly to a change in mentality among the political and economic elite of the region—a greater awareness of what is entailed economically and politically in being part of the community of nation states in the contemporary era.

During this period, too, INCAE pursued other projects, prominently in Ecuador and in Venezuela. In Ecuador, INCAE faculty worked with AID in an ambitious effort to strengthen the management of the country's economy and to contribute to a dialogue about how to address the country's crippling political fragmentation. The private sector of Ecuador, led by Isabel Noboa, has made a commitment to help INCAE develop and maintain an executive education center in Guayaquil, one that would serve not only Ecuador but also other countries in South America.

In 1993, INCAE signed a six-year, multi-million dollar contract with the Fundación Gran Mariscal de Ayacucho of Venezuela. This accord funded the education of Venezuelan students at INCAE; training for doctoral candidates; post-doctoral training for professors; courses for professors and administrators at Vene-

zuelan universities; and case research and writing on Venezuela (for use in INCAE's classrooms). INCAE also increasingly offered seminars—on everything from agri-business management to marketing—in South America and even, on occasion, in Mexico.

All of these activities contributed to the growth and diversification of INCAE's students. More and more students began arriving from South America. In response, INCAE now not only has offices in each of its six member countries, but also has offices—and friends—in Peru, Bolivia, Colombia, Venezuela, and the Dominican Republic. An increase in women has also contributed to the diversity of the student body.

In 1995, with the growth of INCAE's student body and in a determined effort to assist in the rebuilding of Nicaragua, INCAE resumed offering a residential MBA at its campus outside Managua. Two sections of the MBA are offered at the Costa Rican campus; one section of the MBA is offered at the Nicaraguan campus, all of which are served equally by the faculty of INCAE.

The INCAE faculty continues to be the bedrock of the institution, as it has been from the first classes given in the Central Bank of Nicaragua. Professors come from throughout Latin America and North America, with an occasional faculty member from Europe and Asia. Nearly the entire faculty has doctorates from Harvard or other renown universities. It is suggestive, too, that INCAE faculty members have served as visiting professors at Harvard, Stanford, Princeton, the University of Michigan, and elsewhere. The faculty takes its commitment to teaching seriously, and even the rector and deans teach. INCAE faculty members have produced over 3,000 case studies of administration in Latin America. The fruits of faculty research are disseminated widely, in both English and Spanish.

Although the formal contract between HBS and INCAE was concluded in 1972, the two institutions still cooperate, as was most powerfully shown with the competitiveness project with Michael Porter. An advisory committee of six Harvard faculty members offers guidance to INCAE. And INCAE contributes—at least in some small fashion—to the richness of the HBS. INCAE sends promising students to the doctoral program, INCAE cases are sometimes used at the HBS, and the faculty of INCAE sometimes lend a hand to their Harvard colleagues pursuing research.

Harvard gave INCAE a solid foundation, but INCAE has flourished as much from innovation and timely responsiveness to the evolving managerial needs of those it serves. INCAE has demonstrated its capacity to offer quality management training, and, more broadly, to contribute to the economic development of Latin America.

INCAE's "hands on" efforts to promote economic development, including most prominently the INCAE-Harvard project for competitiveness and sustainable

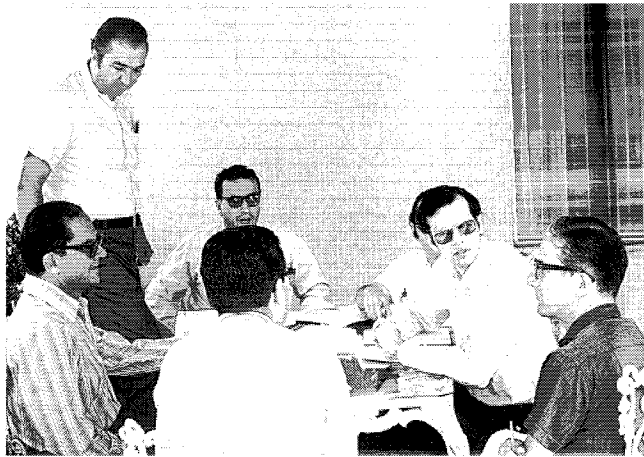
development, have enriched INCAE and strengthened its ability to train managers. Course offerings and class content are enriched; student recruitment and student diversity are strengthened; the knowledge and skills of the faculty are enhanced; ties to the public and private sectors of the countries of Latin America are strengthened; and, finally, the financial well-being of the institution is enhanced. Theory and practice—education and work—serve each other at INCAE.

INCAE Students and Alumni

Roberto Artavia

Students in INCAE's residential MBA program share a rigorous academic program of two years in close company with each other. The residential nature of INCAE is a distinct United States import; it is not common in Latin America. Although both the Nicaraguan and Costa Rican campuses are removed from urban bustle, residence at INCAE is popular, contributing to more focused study and closer bonds among students.

Aside from campus residence, INCAE is perceived to be different from its Latin American counterparts for its seriousness and its demanding workload. First year students commonly disbelieve what is asked of them. With only rare exceptions students comply. Sometimes, however, they falter and are left to their wits in meeting the demands of INCAE's faculty.



INCAE's older alumni delight in recounting the anecdote of a European professor beginning his first class by calling on an inadequately prepared first-year student. The student looked nervously at the professor and did not answer. The professor, angry, reprimanded the student, saying that if he contin-

ued in this way, he was destined for failure and that to become a manager one had to be ready to establish and defend his opinions, that he was wasting his time as well as that of the class, and that therefore the best thing for the student to do would be to quit the program. Disconcerted, the student began to leave the class. The professor looked at him fixedly as he was leaving, while the rest of the students watched with fright. As he was leaving, though, the nervousness of the student changed to anger to the point that, just before reaching the door of the classroom, he turned, looked at the professor, and said to him, "Before I go, I would like to tell you that in my whole life I've never met such a son-of-a-bitch as you." To the astonishment of everyone, the professor smiled slightly and answered, "Return to your seat son, you

have already learned to speak like a manager.” The student graduated two years later and went on to hold positions of importance in his country.

A more recent generation of students tells of another professor, this time local, who began his first-year class by calling on a student and asking him what he thought about the reading assigned to complement the day’s case. The student responded that he had prepared the case, but that he had not had the time to look at the reading. The professor simply said, “Strike one!” At the beginning of the next class, as the professor looked around the classroom, there were several raised hands showing a number of students eager to open the day’s discussion, among them the student from the previous day’s incident. He had worked several hours to prepare the case and, in addition, he had done the assigned complementary reading. But the professor looked at him and asked, “What does the complementary reading assigned for yesterday’s case say?” The student had to confess that, in his eagerness to do a good job with that day’s material, he still had not had time to read the complementary reading assigned for the first day. “Strike two!” condemned the professor. Today the successful manager of a sizable business concern, the alumnus recalls, “After that day I was one of the best prepared students in that and all my other classes. I still am grateful to the professor for the lesson he gave me.”



The capability that INCAE students develop to defend themselves is remarkable. After an especially grueling night of study, a student came to class in such an exhausted state that he fell fast asleep. Halfway through the class the professor decided to awaken the sleeping student. Raising his voice, the professor called on the sleeping student, and asked, “What do you think about what your classmates have said regarding the company’s situation?” Seeing an empty blackboard, the student said without a moment’s hesitation, “Professor, I find the opinions that have been given vague, and the arguments advanced incomplete. I would like to ask my classmates to clarify what they have said.” The professor was so surprised—and impressed—with the quick response that he asked the students to restate their views of the case under discussion. The sleepy student had no difficulty adding an opinion and the class proceeded.

When the outside world intrudes upon INCAE’s students, they often are able to thwart impending challenges with the analytical skills that they have sharpened in the classroom. Late one night, a student in Managua hit a cow that

had wandered onto the unlit highway leading to the campus. A few hours later the police came looking for the student, demanding that he present himself at the house of the farmer who lived near INCAE to pay for the dead cow. The student responded that he would gladly do so, as long as the farmer who owned the cow also present himself to pay for the damages to the car. The reply, which was apparently something that the police had not expected, produced a moment of uncertainty and an ensuing argument between the two visiting police officers. In the end, the police said that the case was closed and that each of the parties should cover his own costs.

While INCAE students, like students everywhere, cherish their shared moments of humor and incredulity, they are quick to acknowledge that INCAE's intensive study leaves them with honed analytical skills, an infusion of vicarious managerial experiences, an ability to work, and a deep sense of camaraderie with their classmates. Given the diversity of INCAE's cases, and the international makeup of INCAE's faculty and student body, students are also more worldly. Students leave INCAE ready and able to contribute to the economic development of their respective countries.

INCAE counts as alumni all those students who have spent enough time at the Institute to absorb the essence of INCAE's culture. True to George Cabot Lodge's recommendation at the founding of INCAE, our alumni are committed to change and the successful management of change, and they have the necessary analytical and managerial talent to be fruitful in their endeavors. They know, too, that continuous learning and renovation are necessary to manage—and initiate—change. Finally, there is the hope that INCAE alumni have the highest ethical standards.

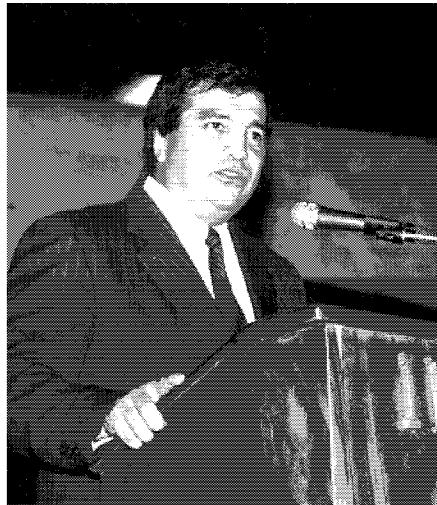
Since its founding in the early 1960s, over 4,000 managers have emerged from INCAE's degree programs, and more than 125,000 executives have participated in the institution's executive management programs. Alumni have their own associations, organized nationally (in Honduras and Ecuador they are organized by city), with periodic activities that bring alumni together. There is also a federation that links these alumni associations with each other and with INCAE.

Most important, though, is the work of INCAE alumni. They do important work throughout Latin America, filling positions of responsibility in the private and public sectors of the region. INCAE alumni generate wealth and create employment. They raise and manage capital for investments, they introduce new technology, they combat environmental degradation, they manage the collection of public revenue, they plan and implement social programs, and they do so much more. Indeed, wherever there are complex organizations performing complex tasks, INCAE alumni are present, working. And, by all accounts, they are successful, which is good, because there is no better measure of INCAE's success than the success of its alumni.

Looking to the Future

Roberto Artavia

On the eve of the twenty-first century, I assumed the responsibility of serving as rector of INCAE. I am a Costa Rican with a Guatemalan forefather and a Nicaraguan wife I met while studying for my MBA at INCAE's Nicaraguan campus. I consider myself a "Central American," and I hope my three children come to see themselves as "Latin Americans." Perhaps my grandchildren will consider themselves "citizens of the Americas." Upon completion of my MBA, I worked as



as a research assistant at INCAE. I entered the doctoral program of the Harvard Business School in 1987 and received my degree in 1992. I returned to INCAE, joining the ranks of the faculty. I served as dean, overseeing the MBA program and guiding faculty development; I served as the first director of our Latin American Center for Competitiveness and Sustainable Development (CLACDS), nurturing its first initiatives. My accession to the position of rector is testament to INCAE reaching a level of institutional maturity—and intellectual independence—that it can recruit its leadership from within its own ranks. I know the institution.

I am at the helm of a formidable institution, with considerable resources, prominently among them its prestige in the business community of Latin America. I am pushing forward with our institutional commitment to economic competitiveness and sustainable development. Although difficulties in the Andean countries are retarding our efforts to become "continental," we will persevere. Though we are well aware that our original mission was to meet the needs of Central America, the reality of "globalization" is that we cannot meet the needs of Central America unless we reach outside the isthmus. And there are many useful things we are doing—and can do—elsewhere in the Americas.

In our efforts to serve the managerial needs of Latin America, we need to remain on the cutting edge of management education. We are reinvigorating our MBA program and our executive education programs, strengthening the existing

curriculum and experimenting in new frontiers, such as with electronic marketing and commerce. I am also striving to strengthen CLACDS, consolidating its activities and concomitantly integrating it more thoroughly with INCAE's many academic programs. Finally, I am committed to strengthening our relationship with all of our "stakeholders," with the private and public sectors of our member countries, with our national boards, with the alumni of our MBA program and our executive education programs, and, also, with our valued employees. We have accomplished much, but there is still much to do. We are always busy. And I am always optimistic about what can be accomplished.

For over 30 years now, INCAE has labored to serve the needs of Latin America, trying to push economic development forward, to correct mistaken steps backward, to encourage cooperation among all interested parties, and to plant visions of a better future. INCAE continues to teach business management. But it has assumed new teaching and research responsibilities: the production and the dissemination of technology, economics, environmental management and sustainable development, and governance and public policy. INCAE's success in these areas, and above all its willingness to address the overlap between disciplines, has led to an expanding demand for its services. Students and faculty have grown in number, making INCAE even more international.

In the future, INCAE will continue to develop this novel and winning combination of services. And INCAE will continue to expand its programs and institutional links throughout Latin America. Our allegiance to our principal gift from Harvard—a commitment to excellence in everything we do—will remain constant.



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