

INCAE : THE EARLY YEARS

A VIEW FROM THE GROUND

EXECUTING THE VISION

The Harvard Business School (HBS) and many of its faculty have had close and productive relationships with INCAE (Instituto Centroamericano de Administración de Empresas) starting from the creation of INCAE in 1964. This remarkable history has been told very well by George Lodge and many others who were present at the creation of that splendid vision. Their vantage point has been from the high level of presidents, government officers, deans and senior professors, a position essential to understanding a major history.

But splendid ideas must ultimately be well executed or they fade away. In the case of getting a new educational institution set up and going in Central America, not surprisingly, the execution of the vision was a major struggle. I was privileged to view the creation from the ground up and participate in the often difficult process of actually getting the institution up and going.

My viewpoint was from the operating level, for in 1963 I was a non-tenured associate professor and only recently a member of the HBS faculty Committee on International Activities. That year the proposal for HBS to take a major part in establishing a new business school in Central America was brought to the committee for discussion and the development of a recommendation to the full faculty concerning our participation.

Later, in 1968, as a full professor and Director of International Activities at HBS, I was assigned by Dean Baker to undertake the role of Harvard Advisor to INCAE. Of necessity, since my first task was to assist in the actual start-up, my focus continued on “execution”.

This began with moving to Nicaragua to become a member of INCAE’s first faculty, teaching at Managua for three months with the first class of MBA candidates in 1968. My participation continued at the ground level with a continuous role for sixteen years as an advisor to INCAE rectors and faculty members and HBS colleagues working with INCAE.

The report of this work is presented in five parts:

1. Pre-startup discussions, decisions and contract administration at HBS
2. The startup of the MBA Program in Managua, Nicaragua
3. The debate over reducing the length of INCAE's MBA program
4. What to do after the Sandinista revolution
5. A new rector

PRE-STARTUP DISCUSSIONS, DECISIONS AND CONTRACT ADMINISTRATION AT HBS

After the initial vision of a business school in Central America had been set forth and made specific and the visits and interviews with business leaders from all the Central American countries were completed and several summer courses carried out (this is described superbly and fully by George Lodge in "The Birth of INCAE: The View from Harvard"), the time arrived for HBS to make a final decision concerning its participation. It was 1963 and the issue was placed on the agenda of the Committee on International Activities, of which I was a member. Professor Harry Hansen was chair and George Lodge was the vice-chair.

In addition to the above-mentioned research and teaching activities in Central America, the committee also had as background to its decision the facts that the faculty and in several cases HBS itself had had active and substantial relationships in assisting in the startups of business schools in Turkey, India, France, the Philippines, Japan, Italy, Nova Scotia, Mexico and Switzerland. Most of these affiliations, formal and informal, were going on in 1963 as the committee took up the issue of INCAE.

Faculty opinions ran strongly about many worrisome issues concerning the school's steadily increasing level of international activities, and, while the committee had been recently constituted to set policies and deal with such issues, little had been done yet in any formal sense. So when the INCAE issue came up it was into a policy vacuum featured by a laissez-faire and mixed history.

The issues which worried many faculty included a) the total levels of loads on our faculty resources derived from assisting in international startups, b) the exposure to potentially embarrassing failures at schools being assisted, failures to which we might become publicly connected c) the tendency of the schools to flout (and benefit from) their “Harvard sponsorship” (which often did not exist), d) the limited degree of HBS control and influence on educational quality relative to the responsibilities we assumed e) our ability to be of genuine assistance to schools where the economies, cultures and business practices were so different from our own, f) the sense that each school’s relationships with HBS was dominated by one of our faculty, more or less outside of the real control of the dean, and, finally, g) there was inevitable “wheeling and dealing” by faculty who could offer their colleagues invitations for fully paid summer trips with spouse and a full teaching salary.

The natural result of this plethora of generally unresolved issues was that a decision to accept a contract with the government (USAID) and formally support and assist what was to become INCAE was by no means a sure thing.

In addition to the general concerns listed above, there were two more, and at least one was big: HBS had never undertaken a major government contract. Many felt it would be cumbersome, expensive, and inevitably subject the faculty to government rules and minute regulations.

The other and brand new concern was that President Kennedy had asked HBS to do this work. This fact had been foreseen by the dean and other HBS leaders as a strong plus which surely would persuade the faculty to go ahead. The effect on a few but strongly outspoken members of the committee was that no government official, the president included, was going to tell this faculty what to do!

One leading and influential professor, Abe Zaleznik, who had researched the issue at length in Central America, wrote an excellent and lengthy but negative report. The report was based on his well supported evidence that Central America was an agricultural economy and that HBS had no expertise to help in such an economic environment. He advised that Central American leaders should instead approach a good agricultural school such as Nebraska or Iowa, for example, for starting a school of management.

So the discussion was long and sometimes heated. Clearly the dean, the chair and vice-chair wanted a positive and enthusiastic vote from the committee to recommend to the faculty the approval of the INCAE resolution. They exerted a strong positive influence. After several hours of intense and unusually heated discussion the issue was put to a vote. Only about two-thirds voted to recommend that we go ahead, but that was sufficient to provide a positive recommendation to the full faculty, where it easily passed with a more substantial majority.

By 1964 the contract with USAID was in full force and experimental summer teaching programs had been carried out in Antigua, Guatemala and Boquete, Panama in 1964 and 1965. But the dire predictions of many faculty were borne out as the relationship with USAID contract officers grew ever more thorny and contentious.

We had no experienced contract managers at HBS for none had ever been needed. Faculty and Harvard financial people involved were constantly irritated with the minutiae of the government auditors and contract managers. They complained at the “nonsensical terms” contained in the fine print, and tried to fight off the contract officers’ demands. It became such a mess of misunderstandings and accusations on both sides that the local government office concluded and so informed HBS that cancellation of the contract would be forthcoming.

At this point Dean Baker and Associate Dean Lombard stepped in with a promise that HBS would make a renewed effort to get along better with the government and hired Jack Moscatelli, a young man with some modest experience in this sort of administration and placed him in the Division of International Activities to take charge of the contract. His assignment was to get the contract and relations with the government straightened out. His assistant was Roma Dearness. Their attitude and policy was simply to comply with every contract detail without question or complaint.

Jack reported to me and I watched this operation closely, but I can take absolutely no credit for what he did. Within a few weeks he had everything working out smoothly and with no quarrels with the government, Harvard financial people, or even the faculty. This continued for several years. He was quiet, modest, independent, did it all by himself with Roma Dearness, and, thankfully, he very politely kept me out of it. He saved the day.

THE STARTUP OF THE MBA PROGRAM IN MANAGUA, NICARAGUA

In 1967 the ground was broken for a campus for INCAE at Montefresco, about 12 km south of Managua. Almost immediately soil problems related to volcanic ash necessitated holding up work and redesigning the footings. As the HBS advisor I visited the site to observe the problem and do what I could to make sure that the redesigns were being expedited, but there was no hope that the buildings could be completed in time for the first class, scheduled for January, 1968.

Professor Charles Savage from HBS had volunteered to move to Nicaragua and develop the curriculum and recruit faculty. Mr. Clark Wilson, a fairly recent addition to the HBS faculty as a lecturer in marketing, was assigned by Dean Baker to run INCAE until the board could appoint a Central American. Wilson moved to Central America in the fall of 1967 to take charge. While Savage worked on the faculty formation and the academic side of the enterprise, Wilson was to recruit students for the first class.

Wilson went from country to country and visited the local INCAE committees which had been established in all the countries of Central America to get recruiting started. He visited colleges and businesses, explained the MBA program and its similarity to that of HBS. He quickly learned that the tuition price was a high hurdle for most potential students. So he went to banks in all locations to explain about INCAE and gain their commitments to make student loans.

This was a monumental, indeed nearly superhuman task, requiring constant travel, visits and followup visits, meeting and screening with Charles Savage every potential student. This frenetic activity went on all fall. I visited several times and was assured and reassured by Wilson that we would have a class of about fifty excellent students.

Meanwhile, he and Savage had to locate living places for their families and more importantly for the students, hire a small administrative staff and arrange for some sort of classroom, because the new buildings at Montefresco would not be ready for a year. They made arrangements to lease the entire sixth floor of the Banco Central in downtown Managua for a classroom and offices for the faculty. This was a splendid arrangement, for

the building was relatively new and the facility was well built and quite impressive.

The living quarters for the students were quite a different story. Savage and Wilson found a downtown hotel of five stories which was doing poorly. Its owners were only too pleased to rent it to INCAE for student living quarters. It was primitively simple, of totally concrete construction, cheaply built, with a crude swimming pool filled with green algae laden water, and the rooms were small, bathrooms Spartan, and virtually no lobby or meeting room space. (Called the Lido Palace, it collapsed in the earthquake of 1972 into six flat layers of rubble, each layer being about three feet thick.) I spent many nights there in 1967 on trips to Managua and decided most reluctantly to go along with the on-site staff's decision to have the students live there. There were no other options for a place within walking distance of the classroom and where all fifty students could be together.

Shortly after Christmas of 1967 Jack Moscatelli went down to Managua to make final arrangements concerning handling of local student finances, paperwork, USAID contract complications, student housing details, and plan for the "orientation day" when the students would actually appear and register. Roma Dearness would go down a few days later. I would also go to Managua to teach operations management in the MBA and arrived in time to move into a small house on the mountainside which USAID provided.

When I arrived Clark Wilson told me that more or less fifty students were all set, their financing arranged, and would register between twelve noon and five on January 8. After registering they would check into their rooms at the Lido and at six we would have an orientation session and dinner nearby and start classes on the ninth at 8:00 A.M.

I came down to the Lido at about 11:30 A.M. so as to meet each student as they arrived. Jack Moscatelli and Roma Dearness had several tables set up in the Lido lobby to handle the registration, check-ins, tuitions, class schedules, case books etc. The tables were extremely neat and orderly and superbly (as always) planned and organized down to the last detail. Jack and Roma believed that a business school should be business-like.

They sat down at their tables at noon, all ready to go into action. I stood by ready to shake hands with the first student.

It was a long afternoon. No one came. Not a single student appeared. I wondered about trying to reach Clark Wilson, who was at home, and double-checking that somehow we might have miscommunicated about the date. But he reaffirmed that the date was OK.

We waited. It was kind of embarrassing, there we were all set up and ready, and nothing was happening. We had some small talk and a few lame jokes, but we were really nervous. What could have gone wrong? Two o'clock, three o'clock, four o'clock. And then, finally about 5:01 a single student came up the steps. We registered him. But then came a second! And a third! And then a large crowd formed on the steps! They poured in and by six o'clock they were all there! From every country. Every single student that Clark Wilson had promised had appeared! Astounded but relieved and happy, we could and did close down the registration tables about 6:30, and all went off to the orientation and dinner.

The next morning, following the marketing class of Clark Wilson, at 10:00 A.M. I taught my first class at INCAE, the second class in its history (I am unabashedly proud of that for it has turned out to have been a momentous event.). They were a great group to teach. The faculty all insisted on and achieved excellent preparation and total class participation in case discussions.

The students had a wonderful sense of humor. We had laughs all the time. The class gave every member a nickname, professors included. Mine was "zero-zero", for I insisted on starting and ending classes on time and, more importantly, on precise quantitative analyses in their case preparation. From that first class on, teaching at INCAE was an enormously satisfying and happy experience.

So on January 9, 1968, all the visions and all the efforts of dozens of individuals to start a business school for Central America came to fruition and reality. INCAE was up and running.

THE DEBATE OVER REDUCING THE LENGTH OF INCAE's MBA PROGRAM

From the initial conception of INCAE the multi-country governing board, the rectors, and the faculty planned and implemented the MBA program to

closely reflect the HBS model of its MBA Program. As at HBS there was to be a first-year required course covering the basic functional areas of business and cross linked with “tools” courses such as accounting, human relations, and quantitative methods. The second year would require courses in business policy (now the word is “strategy”) and a mix of electives in the functional areas and international business.

For about two and a half to three years this model was pursued without challenge. It was very well received by the students, graduates seemed to perform well, the faculty were enthusiastic, and the public relations benefits of “just like Harvard” were abundantly obvious. From the educational standpoint it was working well.

What was not working so well was that financially, not unexpectedly, INCAE was turning out to be a major struggle. USAID funds were reduced year by year after the initial jump starting of the institution. To make this up required more tuition dollars, but the tuition was already very high by Central American standards and, anyway, any tuition increases had to be accompanied by more scholarships and grants and loans. INCAE was too young an institution to expect any but token alumni giving, and too new to receive more than scant contributions from business.

Even meeting payrolls became difficult. On more than one occasion Rector Ernesto Cruz was required to personally guarantee with his own signature a short term loan to INCAE from a Nicaraguan bank to meet the payroll and pay local bills.

Further, after the first several years recruiting MBA students became more difficult as a natural backlog of eligible students (existing because no comparable programs had been available) was skimmed off. Students and their families were inclined to favor the reduced costs and time required of one-year programs rather than two. Inspired by INCAE’s success, new competitive institutions in Central America, Mexico, Venezuela, Brazil, Peru and Colombia offered one-year programs with much lower tuitions.

Many members of INCAE’s faculty and apparently the rector himself began to question whether Central America could afford a two-year MBA program and whether, indeed, INCAE could survive financially and competitively if it persisted with the HBS model.

The problems were real and substantial and the one-year MBA became very appealing. Opinions varied both as to what to do and in the strength of feelings shown. Memos were written and emotions ran high for it was clearly a strategic and perhaps even a survival issue.

Professor Charles Savage, who clearly had been the leading academic pioneer in the founding of INCAE, alerted me of the impending crisis and urged me to come to Managua for the discussion of the issue. He argued quietly but passionately that INCAE's quality would be seriously reduced if we reduced the two-year MBA to a one-year program.

He wrote a three-page document for his colleagues, the board and the rector which became the focus of the faculty discussions. I was there at the time when the debate reached its peak. Savage's memo argued that our distinction in Central America would be blurred. Our graduates from a one-year program would not be nearly as well prepared to succeed. We would not attract the cream of possible students. Our faculty would be smaller and our costs lower but we would not attract as outstanding a faculty. We would not "be like Harvard" but would be like a dozen other schools of lower quality. He concluded that we should solve our recruiting and financial problems in other ways but not by compromising our product.

The contrary position was based on the financial struggle of INCAE, the recruiting issues, and the larger faculty requirements. These were strong and nearly persuasive arguments, especially to faculty who were there on one, two and three year contracts, many of whom had not studied at HBS. But each had a vote.

I had no vote but I had no doubt that if INCAE became a one-year program its quality would be permanently damaged. It would never be the same. The HBS faculty, like myself, would no longer believe in its worth.

After several weeks the debate reached its climax in a faculty vote. Charley Savage's memorandum was truly historic. When he wrote it he was vastly outnumbered. I had never seen him so discouraged. Nevertheless he stood his ground. He was a gentle and accommodating, tactful person, but he would not compromise. He never gave ground. Ultimately his arguments won out, but very narrowly. It was a close thing. INCAE remained a two-year institution.

WHAT TO DO AFTER THE SANDINISTA REVOLUTION

When the Somoza regime was toppled by the Sandinista revolution the INCAE administration suddenly found itself needing to cope with a strange situation. The faculty, employees and students from Nicaragua and all over Central America faced questions of great importance concerning:

1. The safety of INCAE people, including non-Nicaraguan faculty and students
2. The requirements and demands which would be placed on Nicaraguans by the new government
3. The occupation, possession and control of the campus property
4. The willingness of faculty and students to remain in and work in an avowedly communistic/socialistic country
5. The courses, curriculum and mission of a business school in such a country
6. Replacing the financial support previously offered, though minimally, by the Somoza government.

Much of this story has been told very well elsewhere and I will only add from my “view from the ground ” these comments:

The Sandinistas came to the campus in military trucks and well armed but were not threatening to INCAE. They apparently treated our people as neutral politically, including foreign nationals. They made no attempt at seizing the campus.

Many students and faculty chose to leave and were so permitted. A small number of faculty elected to stay, feeling it a privilege as an academic to be working right in the center of a genuine revolution.

The rector and the board made two major decisions. One was to encourage everyone do what they wanted to do, and to assist in any way possible.

The second was of major consequence: It was to inform the Sandinistas that INCAE was a non-political institution and would be neutral with respect to the new government. Further, INCAE would offer to train the managers and officers of any government as long as its intentions were to better the lives of its citizens and act in a responsible and non-violent manner.

The Sandinistas were very earnest in requesting that the Harvard Business School faculty support their efforts to run the services of the government well, being aware, of course, that nearly every manager or bureaucrat would be new at their job.

One morning I came in to a scheduled breakfast with Sandinista officers arranged by George Lodge at the faculty club at HBS. And there they were, about six men in Castro-like green uniforms, including Jaime Wheelock of the top junta humbly asking us not to leave Nicaragua and pleading for HBS faculty to continue to assist them in Nicaragua. It was quite appealing.

They asked us to establish management training for different levels and functions of jobs. We did this and it worked out well, though attracting faculty was a major challenge after the first few months because the Sandinistas did not run the country well. It became run-down, the streets dirty and unsafe, the electricity uncertain, sewers clogged and services in stores badly deteriorating.

A NEW RECTOR

The next several years were extremely difficult. The school's finances were in bad shape because USAID had little inclination to support education in a socialist country. Enrollments were down with fewer student applications, faculty morale was worsening because of the above facts plus the deteriorating condition of the country, and the rector, Ernesto Cruz, a Nicaraguan who, as the school's head, had had a good working relationship with the Somoza regime, and with his family in Managua, recognized that before long he would have to be thinking about emigrating to the USA. He was frank with me on this subject.

So it was a time of uncertainty, instability, and a clear decline in the fortunes of INCAE. Don Chico de Sola, from El Salvador, chair of the INCAE governing board called me at HBS and asked for advice as to what needed to

be done. I suggested that he come to Boston and meet with faculty who had been involved with INCAE. A week later he arrived and on June 3, 1980 we held a meeting in Humphrey Lounge to decide what to do.

We started by seeking a new rector and the name of Harry Strachan emerged from a list of possible candidates as clearly outstanding. But he had to visit and survey the situation and then if he decided to accept the position to finish other activities before taking over.

Meanwhile, because Rector Cruz had announced his plans to step down, we suggested to don Chico that the board ask John Ickis, who had recently completed his HBS doctorate under Professor George Lodge, and was currently academic director, to assist in holding INCAE together until a new rector could be appointed.

Many faculty had left after the revolution, enrollments were down in both the first and second year, economic and physical conditions in Nicaragua were deteriorating with the exodus of capital, and the faculty sensed a vacuum of leadership.

John and I established regular contact and on several occasions he called me in haste to ask me to get down to the campus as quickly as possible so that we could deal together with sporadic crises. Inevitably John had to hold things together in a deteriorating situation. He was excellent at this difficult task, made more difficult because a few of the faculty who wanted to see major changes in the strategy, structure and curriculum constantly urged that immediate changes were essential. Others cautioned that nothing should be done until the new rector was installed and led into strategic change.

In my opinion INCAE came close to collapse. The written record of those times supports this view. Throughout, don Chico de Sola was a tremendous strength. He said, simply, directly and firmly. "There is no question. We must go forward. We must make this school succeed."

Finally, the unstable interim period came to a close with the arrival of Harry Strachan. He was cheerful, firm, a strategic thinker and a charismatic leader, and he brought order and positive change, ending several years in which INCAE lived on the brink of disaster.

Of course more crises came along but Strachan never seemed dismayed. There followed the development of the second campus in Costa Rica, an extremely happy and successful endeavor which has been described superbly by my colleagues. I taught there in the early 80's and worked as an HBS advisor to rectors Harry Strachan, Marc Lindenberg, and Mel Copen. A happy ending for me of helping for sixteen years to create a school whose graduates have made such enormous contributions to Central America.

It was my great privilege to witness from the ground level the execution of an extraordinary vision, the actual establishment and survival of a successful new institution. There were many who emerge in my memory as absolutely essential to this success, heroes without whose work INCAE literally might not have survived. Their work has been described in this paper. With apologies to others surely also deserving similar accolades, I will close this report with their names:

George Lodge, Jack Moscatelli, Clark Wilson, Charley Savage, Ernesto Cruz, don Chico de Sola, John Ickis and Harry Strachan.

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