

TEACHING STORIES

Harry W. Strachan

Copyright ©2010 Harry Strachan
v101029

INSTRUCTOR.....	3
It's Unfair	3
Financial Models and Good Judgment	4
Finding the Right Strategy for INCAE	5
Unusual Consulting.....	11
Moving On	12
HBS ASSOCIATE PROFESSOR	13
Soldiers Field Park.....	13
BGIE	13
INCAE RECTOR.....	15
The Sandinista Crisis	15
The New Strategy.....	16
A Risky Decision	17
Relevant but Neutral	19
Implementing the Strategy.....	20
Managing in Chaos	21
Family Costs	26

Life Stories

INSTRUCTOR

It's Unfair

In the second year, I was asked to develop a new course called “Management of Financial Institutions.” Harvard had a solid course on Money and Banking, but it contained virtually nothing on the nuts and bolts of running a bank. However, Stanford had a wonderful course with just the materials I needed. They gave me permission to translate them. Shortly before the semester was to begin I gave about 15 cases, each with 25 pages of text and 15 pages of dense tables and charts to the efficient manager of the translating department. She told me that a complete translation in the time frame we had was impossible. So we negotiated a deal where they would translate the text and I would provide a Spanish – English key for the labels and words in the tables and charts.

The time frame was so tight that students would get their cases dumped off the press in the late afternoon of the day before class. The cases generally had not been proofed to ensure the technical terms were accurately translated. Students would read late into the night since the cases were much too long. They struggled to make sense of the tables and charts. The next day I would push them mercilessly in my poor Spanish to not only unravel very complex business models but also discover some of the subtle aspects of each case.

About halfway through the course, thoroughly frustrated, the class persuaded one of the best students to voice their request for a significant lightening of the load and the elimination of the half-translated cases. He was eloquent. He was also right. The cases were confusing. The class was being overloaded with reading and this was negatively affecting their ability to prepare their other classes.

His only mistake was using the argument that it was “unfair” to expect INCAE students, whose university preparation was not at the same level as those at Stanford, to be able to solve these cases. This touched a hot button in me.

Inappropriately in hindsight, without collecting more information from the class or listening well, I soared off on a passionate speech that went something like this. “You’re right – it is unfair! It’s unfair to ask you to work harder than MBA students in the U.S. It’s unfair that you haven’t had access to the university training they have had. It’s unfair that most of the business literature is in English and not Spanish. You are absolutely right. And it’s only going to get more unfair

when you interview for jobs or make sales calls and find that you are discriminated against because of your poor English and perhaps the color of your skin or the way you dress. That's why for you to succeed and for Central America to have any chance of closing the wealth gap with rich countries, you must demand of yourselves more, not less. You have to work harder! Read more! Analyze better! Put in longer hours! INCAE is not here to make it 'fairer' for you. We are here to help you overcome the unfairness by demanding levels of effort, skills, work habits you now consider impossible. Now let's get back to the case and start building the muscles you're going to need for the unfair journey ahead!"

As I look back on this incident, I'm embarrassed by my insensitivity. Having coached other young professors, I should have asked questions and understood the situation before responding.

But in my visceral unreasonable response there was an element that was profoundly correct. It reflected an attitude that made INCAE special in those early years for everyone associated with it. We all held ourselves up to standards of excellence measured by comparing ourselves to the Harvards and Stanfords of the world. We knew we had to work harder, realize much more of our talents, help each other, but we believed we could compete at the highest level. And we felt it was critical to the region's development that we do this. We were unwilling to just be better than the mediocre schools around us. We wanted to be one of the best – but in terms that were relevant to our region.

Financial Models and Good Judgment

In my preparation of finance cases, I began to try to build a financial model of the business I was studying. I was intrigued by how the best businessmen seemed to have an intuitive feel for their industries, a feel that permitted them to quickly see the implications of any event in the environment likely to impact their company. I develop the hypothesis that as a result of their considerable experience, they had developed, perhaps unconsciously, a mental model of their industry which permitted them to translate these changes into the implications which would show up on the financial statements. While financial statements tended to look alike, each industry had a different set of key variables. I began to try to identify these few variables and through simple algebra translate them into financial statements.

At that time HP had come out with a calculator which permitted me to put my models onto a magnetic strip so long as my key variables were fewer than nine. The calculator allowed me to write a 100 step program drawing on up to nine data memories. I began to use my models to help me prepare for class and in my consulting. One case involved a Nicaragua feedlot for fattening cattle. The key

INSTRUCTOR

variables I identified were the spread in price per pound between what was paid for the calf and what was sold to the slaughter house, the cost/day of feed and medicines, the lbs/day gained and so forth. I had the opportunity to interview the 80 year-old owner of a feed lot, a businessman famous for his shrewdness. I presented him with a number of situations which I had already figured out on my calculator. “Suppose, don Manuel, that the average price/lb has dropped by 10% over the 18 months during which you were fattening the cattle ... what would it do to your business?” Don Manuel sitting behind his desk squinted his eyes and quickly gave me an estimate of the lost profit on each head in his lot. His answer was almost identical to that of my calculator but, when I asked him how he figured it out, he could not tell me. He said he did no math in his head just that the number he’d given felt about right.

In the past forty years large spreadsheets on personal computers have permitted much more complex models than my simple algebraic ones. However, I still make my case teams get up to speed in an industry by trying to identify the key variables in the intuitive models of the best practitioners and then fit them into an algebraic model of structural profitability. Independently I continue to build my own simple models, which have occasionally helped me recognize errors that have crept into the more complex models of my case teams.

I’ve also occasionally found in consulting that the intuitive model developed by an experienced CEO has been rendered incorrect as a result of subtle changes in the industry. Because his model is intuitive, he may not be fully aware of why his judgment isn’t leading to the correct actions. Helping him make his original model explicit and then update it for the new circumstances almost always clears up the problem.

Finding the Right Strategy for INCAE

A faculty friend warned me, when considering INCAE’s job offer, to make sure I got a return ticket for myself and my family. “INCAE is close to bankruptcy.” Working on the strategy committee with Dave Korten, I quickly realized the nature of financial crisis INCAE was facing. USAID, INCAE’s major donor believed INCAE’s “model” was very expensive and was fed up funding what seemed to them an unending set of deficits. Were those costly aspects really essential to learning management? Who was going to pay for it if the students couldn’t afford the tuition? Wasn’t INCAE a Cadillac in a part of the world that needed Volkswagens?

Our five year plan, thus, was really both a strategy to make INCAE financially viable without continued ROCAP subsidies and a defense of the model. INCAE

Life Stories

had been born when business leaders in the region had asked President Kennedy for help in creating a school that would train professional managers. Harvard, after various study missions had agreed to support a case-method based management institute. The founders and we on the strategy committee believed the model required a Spanish-speaking faculty with doctorates in business-related topics from the world's best universities. This meant an expensive on-going program of doctoral studies to train them. To get this talented faculty to return and teach full time the school had to pay decent salaries, competitive with business in the region and schools elsewhere. Study via the case method was critical to behavioral change, we also believed. As the participants discussed and made their own decisions in hundreds of cases over the two years they would develop judgment which otherwise might take a lifetime in the real world. All this required a resident program, full time study, living on campus. Servicing the regional business community and fund-raising efforts required an office in each country dedicated to sales and external relations.

This was a model no one else in the region came close to having. We knew it was expensive but disagreed with those who thought it was a model that could never be financially viable in a poor region of the world.

Dave Korten wrote a magisterial 100-page document. It incorporated all the work to develop a model that had been done by the early Harvard teams led by George Lodge, a key promoter of INCAE. The strategy that emerged assumed the core resident two-year MBA program would run a deficit. Student tuition with luck would cover half of the true costs and even that would require student loans and scholarships. The deficit would be covered in three ways, each of which also contributed to the school's mission as well as its finances.

One major financial contributor would be the executive teaching programs for working managers: a four-week Advanced Management Program (PAG) each summer; many three-day or week-long seminars on specialized topics like finance or marketing or human resource management. These programs would take the case methodology and best practices from other parts of the world to working managers in the parts of the region where they lived. They would serve important institutions with in-house training programs. They would charge enough to cover all direct costs and make a positive financial contribution to the fixed overhead of the school's full-time faculty and facilities.

A second way the deficit would be covered was through special donor-funded research and teaching programs. These programs would finance a lot of the research, permit a larger faculty than otherwise possible and develop elective courses. They would also contribute to INCAE's mission as a change agent in the region, permitting us to focus resources on the needs of important constituencies

INSTRUCTOR

such as the health sector, or cooperatives, or government agencies that might not be able to afford INCAE costs. In that first plan there were three special programs: an agribusiness program, a development banking program and a management of family planning program. The output of these programs included cases on the problems from all over the region, a series of special seminars for the constituencies, workshops with leaders of these sectors to discuss policy initiatives, and published research to take the learning from these dedicated efforts back to Harvard and the rest of the world.

We felt that the small faculty of INCAE could not pretend to leading-edge excellence in every topic of management, but we could be a significant contributor of useful knowledge in important areas where the region was a natural laboratory.

Even if seminars and special programs made a contribution to fixed costs, a deficit remained. This had to be covered by donations. The strategy was to raise money from businesses, business leaders, alumni and friends. In each of the countries there would be a national committee whose president would also sit on the Board of Directors. This national committee, supported by an office of external relations, led the fundraising in each country. These committees did more than raise funds, though, they helped in the recruiting, the sale of the seminars and in our relations with the governments. They identified cases to be studied, problems of priority that we should be focusing on. The objective was to enlist both the money and the personal efforts of our supporters in the larger missions of INCAE.

Even in that first plan we faced the tension between doing what the donors wanted us to do and what we considered our mission. There were heated discussions within the faculty on whether family planning in Catholic Latin America was an appropriate program. We ended up accepting the Ford Foundation's grant because the case writing and teaching would cover management of health care services, all of whose problems, everyone agreed, were important. Also because we recognized that we could not always wait for consensus on important developmental challenges; at times we'd have to lead out. Finally, we felt it was both pragmatic and important to listen to the market. We decided to test special programs against three questions. Is it important to the development of our region? Do we have the right expertise and capabilities? Do others believe it is important enough to provide funding?

The Five-Year Strategic Plan presented in 1971 asked ROCAP for \$5 million to complete our campus and pay off past debts. It included about \$300,000 / year of general budget support. We forecast that we would breakeven by the last year of the plan without further ROCAP support.

Life Stories

We all thought Dave Korten's statement of the strategy was brilliant. It was based on a solid set of premises, chief of which was that management in developing countries doesn't take less brains or less training or less analysis than management in developed environments. If anything, the problems are more difficult and require superior managers and this requires a superior education.

In spite of our enthusiasm for the strategy, this first plan was rejected for a variety of reasons, including some AID regulations that no one had told us about. Dave was incensed that we had been allowed to waste effort on un-doable proposals. Since he was loaded with other tasks, he and Ernesto Cruz, our Rector, asked me to modify the strategy to make it acceptable and to serve as a go-between with ROCAP. I accepted on the condition that ROCAP assign the bright young staff member who had torpedoed the first plan to work with us.

Jerry Wein was that young AID official, and he came down from Guatemala on multiple trips to redo the plan. He steered us through the regulations and questioned anything that he felt smelled of luxury. When our discussions became too intense, we'd go out and play a fierce game of tennis. We even settled one issue of contention by who won a particular set. In the process he became a good friend. Once we agreed upon the strategy, he became a fierce defender, using all his skills and knowledge of AID to get it approved by ROCAP in Guatemala and later in Washington.

As a footnote, if you search the weeds around the back of the campus, you may find a stake planted in 1972 with a handwritten sign that identifies the "Jerry Wein Non-existent Perimeter Road". This stake and the ceremony of planting it was our way of conceding to Jerry's opinion that we couldn't afford a perimeter road. It let him know there were no hard feelings and that we deeply appreciated his contributions.

On our second pass, USAID agreed to almost everything, but made the \$5 million a loan rather than a grant. We called it our "negative endowment" and only got out from under it many years later when Britzio Biondi, our Rector, and Arturo Cruz Jr., later one of INCAE's star professors but at that time in Washington D.C., led a successful lobbying effort in the U.S. Congress to have it cancelled.

Every one of those early years required a Herculean effort to make the budget. The faculty had to develop new seminars, find new grants. Costs had to be pruned. It felt like we were always pushing a rock up a hill. If we let up for even one semester, the rock would roll down and crush us.

That, I suspect, has also been the experience of all subsequent rectors and their faculty. We have often envied other institutions that were born with adequate

INSTRUCTOR

endowments. Yet while it would have been great to have an endowment, I believe the financial stress might have been a key ingredient in INCAE's success. We had to find relevant and important areas of research and teaching. We've had to be productive and market friendly. And as a result INCAE has been more successful than some other schools that started with a firmer financial base.

Business School Models

At the end of the second year, Dave Korten began planning his return to the U.S. and the school needed to find a new Academic Director. I was offered the job on the condition that I get my thesis completed. The strategy we had presented to ROCAP involved training managers for the public sector, something Harvard Business School left to the Kennedy School across the river, as well as an increase in the size of the faculty, which required recruiting beyond Harvard. The Ford Foundation, which was going to help finance our foray into public management, financed a month-long trip for me to visit a number of business schools in the U.S. in order to understand different models of management training for both the public and private sectors as well as start the recruiting process.

Their introductions also gained me access to faculty and students at Yale, Columbia, University of Michigan, University of Chicago, Northwestern, University of California at Berkeley, Stanford, UCLA and University of Texas. It was eye-opening to discuss strategy with the deans and senior faculty and then to talk with students about their experience in the program.

To my surprise, the three schools that most impressed me were the also most dissimilar in their educational models. Harvard Business School, built on the case method, wanted students who had real world experience and invested huge amounts in collecting real world cases. The University of Chicago which focused on teaching applied economics preferred students who came directly from undergraduate programs. Stanford at that time was deeply into quantitative decision-making methodologies. Each school had a different but coherent model that determined curriculum, recruiting, teaching methodologies, faculty selection and even the physical facilities. Faculty in these schools understood what they were expected to teach and believed in the model. Students knew what they were getting and felt that the program was designed to give them what they needed. The result was high morale and effort among both students and faculty.

The schools that least impressed me were the "eclectic" ones that tried to incorporate a bit of everything. Faculty basically did what they felt comfortable doing. The students' experience was very mixed, often not as intense or enjoyable.

Life Stories

I came away from the trip convinced that there are probably many different models that work, but whichever model is chosen, it must be implemented coherently. A school should have a clear strategy that drives curriculum, hiring, admissions and the student experience. In the best schools faculties aren't invited "to do their thing", they are part of a team implementing a strategy.

At INCAE we decided to stick with the case method model of Harvard, feeling it was best suited the needs of our region and was as relevant for public as well as private management.

Unusual Consulting

Early in my time at INCAE I began to get requests for consulting from local businesses. The 1960s and 1970s was a period of increasing inflation, even more severe in Central America than in the U.S. One businessman in Costa Rica asked me to design a pricing system for his real estate development. He wanted to give the buyers of his lots ten years of financing but wanted a price that permitted relatively modest payments by the buyers but which protected him from the loss of value implicit in inflation. Trying to figure out a solution gave me a new appreciation for the distortions of inflation on financial statements and the difficulties of protecting against it. I can't remember the solution we devised but ten years later on a visit to Costa Rica, I got a special thanks from the businessman where the scheme had saved him in the devaluation of the colon from 10:1 to 80:1.

Another early project involved helping design a joint venture/sale of a local Nicaragua plastic company to a U.S. multinational. This required us to help develop both an attractive long term strategy for the business and translate it into believable financials that justified an attractive price. Then we had to help manage a negotiation process and close the deal, my first taste of investment banking. Projects like this were lots of fun, but even more important helped me get a more realistic picture of business in the region.

I became a consultant to one of the two leading business groups, one which included in the group a bank, a savings and loan, a construction company, among others . One day an executive of the group asked me to help him in a special assignment. He was secretive about the exact nature of my assignment until I had reached his lake house way out in the country in the late afternoon. He then told me that my assignment was to convince his son to go the States for college. His son, though he had always been a top student and wonderful child, had dropped out of school to join an outlaw guerrilla group that called themselves Sandinistas. He was living in a hidden camp, part of a guerrilla group attempting the violent overthrow of the Sandinista dictatorship. He wanted me to persuade his son to abandon the cause and go to the United States for college.

I told the father that I'd be happy to talk with the son about his options, answer questions about schools in the States, but that I didn't make a practice of trying to persuade people what to do with their lives. At dusk the son, climbed up to the house from the lake and over the veranda and we sat for a couple of hours talking. His idealism deeply impressed and his willingness to die for the cause he considered so important. It was clear he had thought long and hard about his decision so the focus of my consulting became trying to reassure his father that his son was an admirable kid. When the Sandinistas overthrew Somoza some four or five years later, this son became one of the nine *comandantes* on the ruling junta.

Moving On

By 1975 we were actively talking about returning to the U.S. and I was making plans with the Rector to turn over my Academic Director's position to another. Several factors precipitated that decision: Deirdre's allergy attacks; her desire to get started on her own doctorate; and my own restlessness.

In my year at INCAE, I had learned I was not a very good administrator, in fact disliked many aspects of managing a faculty and school. While I did enjoy teaching, I most enjoyed working with more experienced managers in Executive programs and particularly enjoyed trying to solve very specific business, finance and strategy problems of the sort I found in my consulting. I felt I had a knack for getting to the key issues and inspiring confidence in my solutions but wanted to find out if my strategies worked in the real world or just sounded good. Though I enjoyed ideas and theories and problem solving, I didn't enjoy most academic research, and in fact felt a lot of what I saw in the academic journals was close to worthless.

So in that last year at INCAE I began looking for a new job. I interviewed at banks and investment banks, at centers of research and at business schools. I found my experience at INCAE, as predicted by Prof Vernon, did not make me a "hot prospect" though the work I had done was appreciated at the Harvard Business School. When offered a three year appointment on the tenure track, I accepted thinking that this would fit Deirdre's needs well, permit us to return to Boston near the kid's grandparents, permit me to finish up certain research projects and learn what academic life was like in the U.S. life. It would look good on my resume and hopefully open up other career options.

HBS ASSOCIATE PROFESSOR

Soldiers Field Park

Our first home on returning to Boston was in a new set of apartments constructed on the HBS campus for faculty and married students called Soldiers Field Park. The school's idea was to encourage more faculty involvement with the students. For us the three bedroom apartment was ideal, a short walk from the day care center in which we enrolled Sarah and Ken and another short walk to my office.

Deirdre began work on her doctorate at the Harvard School of Public Health in downtown Boston. From our apartment we had a nice view of the Charles River and there was a field that we and students could use for sports. We simplified our social life, adjusted to the absence of a live-in maid, and began to try to find our niche in the U.S.

BGIE

I joined the teaching group involved in developing a new course whose name had been changed from Environmental Analysis for Management (EAS) to Business Government and the International Economy (BGIE). The objective was to find a "case method" way to teach macroeconomics and political analysis. The cases we used didn't focus on a manager in a company, they focused on whole countries or industry sectors. One series of cases was on the U.S. in the years from 1929 to 1941 which we used to talk about fiscal and monetary policy and the classical versus Keynesian prescriptions. Another series was on Japan in the period of 1950-1965 after it lost the war, the period in which business, government and labor created the strategy and structure that ensured peaceful industrial relations and led to Japan's enviable boom. We used another series of cases on Iran in the period leading to the overthrow of the Shah to discuss modernization and development strategies. Some cases were designed to familiarize students with the major "systems" governing money, oil and food, systems that included the Breton Woods accord, the IMF, GATT, the "Seven Sisters" and OPEC.

Our cases tended to be significantly longer than those used in other courses (a defect since remedied). The hypothetical decision maker might be the President of the country or the Secretary of the Treasury. The cases often covered large blocks of modern history, described the regulatory structures, were dense with tables of population data, national income accounts, and charts on money supply. Students, most of whom had taken economic courses in their undergraduate programs and therefore were familiar with both classical and Keynesian theories,

Life Stories

were encouraged to work on real world data to test their economic and political theories and prescriptions. One of the indirect messages in most of the cases was that real world situations were far more complex and messy than that suggested by theories. Another was that the social and political institutions, often taken for granted, tended to be important determinants of outcomes.

Reading enough history, economics and political science to feel comfortable in teaching the cases felt like I was returning to a post doctorate. My teaching skills were stretched to the breaking point trying to find a teaching plan for these complex cases where there was no clear decision maker, and the data supported discussion of a wide number of different topics. Motivating students to wallow in the data was not always easy. Bruce Scott and John Rosenbloom led the BGIE teaching group trying to help us. Our meetings were fun, I always took away good ideas for class, and gained an appreciation for some spectacularly good teachers, but the meetings did not eliminate the stress I felt preparing for class.

Such time as I had for academic research, was largely unfocused. Before embarking on a program of new research of the sort that would get me tenure, I decided to get my doctoral thesis in publishable form. After a fair amount of rewriting, I had a product I was proud of and a publisher. Unfortunately shortly after the book was launched the publisher went bankrupt so The Role of Family Business Groups in Economic Development: The Case of Nicaragua, got little distribution and sank un-noticed like a stone in a still pond. The topic was of little interest to most business people. The only readers who wrote me about it were anthropologists and leftist political thinkers looking for data to support conclusions different from my own.

I also spent considerable effort on an article that came out of my experiences working with the various agencies in Washington D.C. whose business was developmental assistance. The title, “The Pernicious Side Effect of U.S. AID” pretty much states the argument I made. Although it was published in one of the leading development journals, so far as I could tell it had zero impact on the thinking in Washington D.C. I didn’t want to provide ammunition to those trying to eliminate U.S. assistance to Latin America but I did want to see it managed much more effectively.

I also followed up on the interest in political analysis that I had developed in Central America (See **Error! Reference source not found.** p. **Error! Bookmark not defined.**), did some reading and wrote some cases to encourage more sophisticated political analysis and sensitize managers to the difference between implementing business strategies and political change programs. I wrote a case on the first two years of Castro’s Cuba, the period of time in which he consolidated dictatorial powers without appearing a full fledged communist. Another two cases

INCAE RECTOR

covered the challenges of new democratic governments in Venezuela and Spain post dictatorships, the challenges facing new regimes attempting to implement programs of significant social change. The data in the case permitted participants to draw “political maps” showing how the regimes in questions were supported or opposed by different political parties, different sectors and interest groups, how some of these worked within the legal system while others like terrorists tried to destroy the institutions. The cases also described the “change programs” the government wished to implement and how these might affect the different interest groups. Thus the cases permitted a discussion of “political solvency” and strategies for amassing enough political capital to make the important but unpopular changes required.

Marc Lindenberg, my brother in law and a political scientist was a great help in finding models of political analysis that were action oriented as against just descriptive. I used the cases in various seminars in Latin America and some classes. He and other members of INCAE developed a whole set of seminars on political analysis that became popular and helped Central American governments in the conflictive 1980s find programs of change that were also politically solvent. However, I never found good cases from more developed countries that could be used to introduce the same ideas in the crowded BGIE course.

INCAE RECTOR

The Sandinista Crisis

The Sandinista revolution in Nicaragua was successful in 1979. The Sandinistas consolidation of power coincided with a rapid a deterioration in the school’s finances and a set of internal conflicts that threatened to end the school’s life. In addition to the normal turnover, some of the older core faculty who no longer felt comfortable living in Nicaragua began to leave.

It was not just that the region was suffering from political and revolutionary turmoil, it was also suffering a massive economic depression greater than that suffered by the U.S. in the 1930s. The oil crisis plus misconceived government policies led to the destruction of the agricultural sector, impoverishment and massive unemployment. There was hyper-inflation. There were huge devaluations, which incidentally made the repayment of student loan in dollars exceedingly difficult.

It was not hard in this environment to see why a school like INCAE, dependent on tuition and fees from executive programs and on gifts from the business community, saw its revenues shrink by more than half and its operating deficit

balloon in spite of all cost-saving efforts. There were moments when it became nearly impossible to meet the school's payroll and pay suppliers.

The political polarization in the region spread to the faculty and reduced the school's capacity to respond to the crisis. Some felt the Sandinistas represented the socialistic solution to poverty and inequality. Others saw it as the first step toward a communism that would destroy the region. Many felt the school needed to be moved to another country to survive. Others felt this was neither feasible nor desirable. Nicaragua was not lost and if INCAE was to fulfill its mission, it should do everything it could to help Nicaragua. At one point the National Committee of INCAE in Guatemala threatened to withhold any support for the school if it continued in Nicaragua. Reagan campaigned on a platform that would terminate U.S. support for the new regime and for activities in Nicaragua.

The New Strategy

In this deteriorating spiral, don Chico and Rector Cruz asked me to form a committee to see if a strategy could be developed to save the school. (When I moved to Bain, don Chico DeSola, President of the Board of INCAE, insisted I remain a part of the Harvard Advisory Group.) With the help of many people, particularly Marc Lindenberg, who was teaching at the University of Washington, we made trips into the region and tried to understand the problems from the viewpoint of everyone involved. We collected ideas from faculty, national committees and alumni on how the school might be saved. On a flight to Honduras we had one of those moments where the pieces of the puzzle, collected from so many people, came together in a strategy that seemed to have promise.

The strategy had a number of components, the following being among the main ones:

Rather than shrinking the school, we would launch a regional expansion into the Dominican Republic and the Andean region

A new set of special programs would be developed to meet the particular needs of the region -- one in public management, one in export promotion, and another to bring the conflictive parties together in constructive dialog and study.

We would confront the political polarization in the region by preemptively indicating to everyone our willingness to work with all regimes and countries.

INCAE RECTOR

We would open a second campus without closing the first, making it possible to serve students who would not come to Nicaragua and assuring that no government could take control of INCAE's curriculum.

We would recruit the old faculty to come back and help save the school.

We would extend our fund-raising in Europe in part for the additional funds and in part to create a countervailing political pressure to those we anticipated would be coming with USAID money.

We would try to make INCAE relevant but not partisan. We would try to mobilize the entire larger INCAE family as a constructive pragmatic force to keep Central America from going under either politically or economically.

And we would mobilize a group of influential Republicans who were friends of don Chico and Harvard (Governor Elmer Anderson and Louis Cabot among others) to ensure that Reagan continued to support INCAE as a regional organization.

Our report on the situation and recommendations for the new strategy was first put into a presentation shared with the Harvard Advisory Committee. They enthusiastically endorsed it. Don Chico and members of the Board also agreed to it without modification. It was not that everyone believed it was feasible, but it seemed the only route with any chance of success.

The strategy also called for a new Rector as Dr. Cruz had made clear his desire to turn over the job and move on in his career. I made it clear that I was not a candidate for this position since I had already embarked on my "second career" as a businessman with Bain & Co. and in any case believed it important that the new rector be a native born Latin American.

A Risky Decision

However, the search for a new rector did not yield positive results. There were not many candidates who met the requirements of the job, and those who did could not be persuaded to live in Nicaragua. As the situation deteriorated, don Chico and others began to tell me that I had to accept the position, there was no one else who could do the job. The alternative was to close down the school.

It was a very difficult decision, one I was only willing to consider if I could secure a leave of absence from Bain and if Marc Lindenberg was willing to accompany

me as Academic Director. I'd focus on the external tasks of governmental relations and fundraising while he helped in the internal management of the school.

Getting a leave of absence was complicated. Ralph Willard, the Bain partner most active in recruiting me to Bain, told me that if I decided to accept the INCAE position, I should submit my resignation in writing and sneak out the back door. Bill Bain would kill me for doing something so personally stupid after Bain & Co had invested so much in me.

Instead I walked into Bill Bain's office, explained INCAE's situation and asked him for three things: 1) A donation of \$10,000 from Bain to INCAE; 2) His acceptance of a seat on the Republican Committee to support INCAE with Louis Cabot, Governor Anderson and don Chico to lobby Reagan should it be necessary; and 3) A two-year leave of absence.

He told me he thought I was making the wrong decision, one that was dangerous to me and my family. However if he couldn't persuade me to change my mind, he'd support me in all three requests.

Persuading Marc to accompany me was also complicated. Marc, being more analytic and less optimistic than I, was particularly sensitive to the risks. In an attempt to persuade him (and myself) that we weren't committing suicide in a hopeless battle, I suggested an exercise. We would take each of the critical elements of the strategy and give it a probability of success. I was confident the odds were in our favor. In fact, when we did the analysis we gave every one of the elements of the strategy a probability of success of between 50-85%. However, when we multiplied them together to get the likelihood that all would occur, we came up against the sobering fact that there was only a 6% chance of real success.

I scrambled after that analysis to convince both myself and Marc that the factors weren't totally independent. If we had success on the first ones, that would increase the probability of success of the others, so maybe the odds weren't so hopeless. However, the clinching argument for both of us was that "sometimes it is better to fail gloriously at doing something worthwhile, than to succeed at something small and safe." An outcome like saving INCAE was worth the cost of a couple of years of effort, even if it had a low probability of success.

Another argument that proved true was "Marc, whether we succeed or fail, you'll have opportunities that you'll never get as an assistant professor at the University of Washington. INCAE's future is so precarious that no one really believes we have much of a chance. Just trying to undertake this job will catch the attention of

many important people, deans at Harvard, senior AID officers, prominent business people in the region and open up options for you hard to otherwise imagine.”

And that is what happened. Marc succeeded me as Rector when I returned to Bain. From INCAE, he went to the faculty of the Harvard Kennedy School, then to Senior Vice President of Programs for CARE, and finally as Dean of the Evans School of the University of Washington. On more than one occasion, he reminded me of our conversation, about our estimate of the probabilities. We both learned the important lesson that personal risks in a worthy cause can pay great personal dividends.

Relevant but Neutral

At the beginning of 1981, our family arrived in Managua. That first week I presented my credentials as rector of an international institution to the Sandinista government. Sergio Ramirez Mercado, a noted Nicaraguan novelist and member of the revolutionary junta that governed the country, received us. Roger Quant accompanied me to the meeting and told me that these were symbolic courtesy meetings where one drank a cup of coffee and made small talk. But under the guise of being naïve bumpkins, we’d planned one of our pre-emptive confrontations to ensure that INCAE could be both relevant yet avoid the political polarization which was dividing the region.

Shortly after the coffee was served, I said, “I’m not sure whether I’m violating diplomatic protocol, but I’d like to talk to you “calzón quitado”, (a vulgar expression for “honestly, with my pants down”). I continued, “I can imagine that with our Harvard Business School heritage you see us as capitalistic and incompatible with what you’re trying to do. If that’s the case, we’re more than willing to turn our campus over to you and leave.

However, first let me explain what we do. We are founded on the case method of study that says there is no single way to do things. The student has to figure out what to do by studying the problem. The professor doesn’t have the answers, he has the questions. We think this methodology might be particularly suited to the management challenges faced by the Sandinista revolution. For it to work, however, there are a number of conditions that must be met. I have prepared some slides of the principal ones: freedom of coming and going for faculty and students, freedom from government regulation of the school (a law was already being discussed to impose state control on all the universities and schools), adequate compensation as we have no endowment.”

I also mentioned that I was sharing the same slides with the President of Honduras the following day, and that I would be asking him the same question (Nicaragua was at war at that time with Honduras). I added that “We hope to work with all the governments and all the private sector of the region. I’m really here to find out if Nicaragua is for us or against us, whether it wants INCAE to stay or go.”

I was surprised at how quickly and emphatically the answer was. “We don’t want INCAE to leave. We agree on all the conditions.” Later I found that a number of Sandinistas assumed I was a CIA agent but this open direct approach had made a positive impression in Sandinista circles. “Navegando bajo bandera de pendejo” loosely translated as “Flying under the flag of a fool” was my only hope as Rector. I assumed that my phone was tapped and every conversation reported. Therefore I’d decided on a direct approach with everyone. We knew what we were, a school, open to all, trying to help. INCAE’s stance when faced with the political polarization around us was to be as constructive a force as possible without getting into the ideological debate. We did not pretend direct approval of the Sandinistas, or the military governments of the left or the right. In efforts to grow the economy and solve social problems we tried to help all regimes and all sectors.

Implementing the Strategy

During 1981 the faculty was reassembled and took on extra loads of teaching and program development. The Seminar Program was re-energized and extended into the Andean region and the Caribbean. We designed and raised money for new research and teaching programs. Under Walter Kissling’s leadership (who’d replaced don Chico as Board President after his death during this period), the National Committees were reactivated. We reviewed potential campuses in Panamá, Guatemala and ultimately chose Costa Rica, accepting the gift from the National Bank of the bankrupt Racket Club in Alajuela for the second campus.

In each country business people, like Alberto Motta of Panamá, did an extraordinary job of getting us attractive options. Otto Castro, President of the Costa Rica National Committee and USAID Director in Costa Rica, Dan Chaij were persistent and creative in folding support for INCAE into a program supporting cooperatives. Don Julio Matheu persuaded the Guatemalans that our neutral approach was the correct one. Bobby Murray worked tirelessly with the Salvadorians to get us support. They say that the closest friendships are often made in foxholes. To this day when I meet my comrades-in-arms from this turbulent period, each of whom gave more support than we had any right to expect, I give them an extra warm *abrazo*.

INCAE RECTOR

We hoped the strategy would permit INCAE to break even within five years. To our surprise, it worked better than we'd hoped. Not only did all the elements succeed, INCAE actually reached break-even one year earlier than the plan. The special programs from that period helped persuade governments to change to export-oriented strategies. INCAE's campus became the choice spot for dialog in the region, the place where the Presidents of the region met and conducted the peace process that bought democratic regimes back to power. Graduates from INCAE served as government ministers. They also led the process of transforming local companies into effective global competitors. To my knowledge, INCAE was the only organization in the region throughout this period to work every year with the governments and private sectors of every country.

The credit for all of this goes to rector of that period, Marc Lindenberg, the Board under Walter Kissling and the faculty. I returned to Bain in 1982 though I accepted the invitation to join the INCAE's Board of Directors, where I served for the following twenty-five years. My role has been mainly to support the leaders of the subsequent periods and to teach in an occasional INCAE program.

Managing in Chaos

As the new rector of INCAE in 1981, needing the help of an increasingly dispersed and dispirited alumni group, I had proposed a seminar for former students of INCAE. I asked a small sample of graduates what sort of topics would be most useful to them.

The reply I got was "How do you play your role of manager when your business world is turned upside down? When all the patterns have been broken? When your country is in the midst of civil war, when inflation is approaching 100% a month, when the legal system has collapsed? Is anything we learned at INCAE still relevant? That's what we need a seminar on!"

Professor Wick Skinner of Harvard agreed to help me teach this seminar and he queried Harvard's library of 20,000 plus cases for examples of business problems in the sort of chaotic situations Central America was going through. He could find only two cases we could use. We therefore decided we'd use cases from the experiences of the participant the whole second day.

"We need live cases," we told the group the first night. "If you've seen a very successful or very unsuccessful response to a management challenge in our region, better yet, if you've been involved yourself, please talk to us about it." By the second day we had eight stories, five positive examples and three negative. The presenting participant described the situation and problem without revealing the

outcome, let the participants ask questions and then after a brief discussion, described what had been done and the results. The main elements of each case were written on large sheets of white paper pinned to walls.

Four of the cases were especially memorable.

The Car Dealership. “My family’s entire net worth is tied up in about 50 new cars. We have paid the import duty (about 100% of the value of each car). They are in our dealer showroom and lot in Managua. The Sandinistas are marching on Managua, and we know it will fall in a couple of days. No doubt there will be a period of looting and vandalism before the new regime takes charge. What do I do?”

“The options I considered? One was to drive the cars across the border to Costa Rica about four hours away, but I would have to pay Costa Rican duty and would therefore only recoup about 50% of what we have invested in them. Another was to hire a small army to defend the lot and dealership, but that could lead to a lot of bloodshed.”

“What we ultimately did was to drive all the cars out to a ranch of a friend about an hour from town, into the field where two rivers came together. We removed the distributor caps and waited while the Sandinistas entered the Capital. Somoza fell. Three days later when the looting was under control and the newly installed revolutionary government declared that it wasn’t hostile to private business, we brought the cars back into the city. In the early post-revolution euphoria and scarcity of new vehicles, we quickly sold all 50 cars at full price.”

The Textile Factory. “I am the general manager of a factory where we have about 100 women sewing shirts for export. Throughout the civil war, we managed to meet our deliveries but our clients were understandably nervous.

“I am hanging up my coat in my office when a masked *guerrillero* steps out from behind the door, puts a pistol to my head and tells me to go into the factory with him and give all the women in the factory a 200% raise. With his pistol in my back I follow his instructions. We call the women together. He makes his fiery speech about capitalistic exploitation. I promise the women a 200% raise in pay. And he disappears.

“My only options appear to be to closing the factory and heading for Miami or telling the women I can’t afford the raise and taking it back. Neither of these feels right.

“What I finally decide on is this. I call all the women together. I tell them that I am a man of my word and that if they wish I will honor the pay increase, but I also show them how, within three weeks, the company will be bankrupt and we will have to close. I offer instead to do my best to keep the business going at their regular wages but substitute for the wage increase a share of the profits. I show them how if together we can increase productivity, we can both save their jobs and increase their wages. They vote unanimously to substitute the profit sharing for the wage increase. They thank me profusely for not closing the business and fleeing to Miami the way so many others are doing. I realize that they have been as shaken by the incident as I.”

The High Rise Office Building. “Our family has traditionally focused on agriculture. However, when we have a surplus, we invest it in urban real estate, houses and apartment buildings. Half a year before the FMLN became active and the agrarian reform was passed, we begin a major high-rise office building in San Salvador. As the situation in El Salvador deteriorates and real estate prices begin to go down, it becomes clear that our completed building will probably not be worth what it cost us to build. A debate develops in the family.

“One group feels we should stop the work immediately, sell the unfinished building for whatever we can get (maybe 25% on our investment) and take our proceeds out of the country.

“A second group feels we should accelerate the completion of the building. We should do the best we can to fill it up with renters, recognizing it’s not going to be worth what we’ve invested. We will wait out the troubled times knowing that they will not last forever and when prosperity returns we’ll have an attractive productive building worth what we invested.

“What happened? Unable to agree, we compromise and continue to build but only with a skeleton crew. Our cash flow into the building is reduced by half. But it takes four times longer to complete the building thus increasing its ultimate cost. Two years into the troubled times we still haven’t finished the building. It stands empty and produces no rent at all. We haven’t taken any money out of the country and it’s still not clear how the civil war will end. My paralyzed family has gotten the worst of both options.”

The Hardware Stores. “Before the revolution our firm had a chain of hardware stores throughout the country. Our largest store and the wholesale part of the business are located in the capital. We have smaller branches in secondary cities. On leaving INCAE, I became the company’s financial director.”

Life Stories

“Paradoxically as the violence increases and the overall economy goes into recession, our business grows. Since people aren’t making new investments, the need for repairs increases significantly. The bombings and destruction lead to the need for a lot of hardware. Our competitors also pulled back and disinvested, so our business booms as never before.

“The problem is in our rural branches. At night when the soldiers retreat from the towns into their garrisons, the revolutionaries take over the town and make a practice of breaking into our stores and cleaning out the shelves for their needs. Our attempts to bar up the stores don’t stop them. The insurance companies cancel our policies after the first break-in. You can imagine that while these rural stores are very profitable, it doesn’t take a lot of these sackings to wipe out profits.

“Our initial thought is to shut down the rural stores and focus on our wholesale business, like the competition has done. However, since we give our rural retail clients credit and they’ve also been robbed, our losses on receivables have increased greatly.

“How did we solve the problem? We bought a number of old buses at very low prices. We took out all the seats and lined the sides with shelves and filled them with our products. When the soldiers entered the towns in the morning, the bus accompanied them, parked in front of our stores, and began to sell. At night we brought the buses back to the capital or to the garrison and restocked them. In this way we continued to make more money than ever in the past.”

Effective leadership in Chaos. At the close of the presentations, Wick and I opened the discussion with the question, “What have you learned about managing in times like this? When there is great uncertainty and the rules of the game seem to have been changed, what characterizes effective managers?”

The first answer reflected a lot of the frustration in the group. “What I’ve learned is that nothing we learned in the MBA program at INCAE is relevant!” There was a nervous laugh throughout the room. Several more remarks suggested that the analytic tools they had learned didn’t seem very relevant and even went so far as to suggest that investing in education when things are going to hell makes no sense.

“Does everyone agree?” we asked. Slowly the direction of the discussion began to change. First one and then another pointed out that in the successful cases the manager had actually been quite analytic. The car dealer’s manager had calculated what would be lost if he took the cars to Costa Rica. The CFO of the hardware stores knew that profitability had greatly increased in the hardware stores even if general business had deteriorated. The plant manager had been able to show the

women in the factory that with higher wages they would run out of money in three weeks. And it appeared in the unsuccessful case of the building, the family had not estimated the impact of a slowdown on the overall cost of completing the building or taken into account the lost rents.

“Did you notice anything else about the successful cases?” we continued. The white paper on the wall began to fill up with a list of interesting observations.

“There is creativity, audacity and a willingness to experiment with unconventional solutions in the successful strategies.”

“A leader who is honest about the problems and doesn’t hide them inspires more confidence than those who whitewash the difficulties.”

“Successful managers show a “solidarity” with their people. They communicate care and create a sense of ‘we’re all in this together’ and ‘together we can solve it’.”

“Successful leaders seem to have an underlying optimism, an energy, a will to drive forward.”

“The unsuccessful cases seem to be characterized by either an unwillingness to recognize that things have changed or a paralysis in the face of change”

When it came my turn in the wrap-up, I suddenly had an idea. “I’ve been reading a book on the structure of our brains (*Broca’s Brain*) that suggests that people tend to be left or right side dominant.” Using a fresh sheet on the flip chart I drew a two-by-two matrix: analytic vs intuitive on one axis and pessimistic vs optimistic on the other axis.

“If you’re left-brain dominated, you’re likely to be linear logical, in the analytic box. You’re probably inherently more cautious, prone to pessimism, afraid of audacious moves. Strong analytics often have trouble making decisions and taking action based on limited information.

“If you’re right-brain dominant you are likely to be more optimistic, willing to be more audacious, at times impulsive. Your weakness may be in shooting before you aim, in not calculating the cost, anticipating complications, or in following an orderly plan of implementation.

“On a two-by-two matrix because of your inherited makeup, you’re likely to be in either the left upper box (Analytic and Pessimistic) or in the right lower box (Intuitive and Optimistic).

“But note that the characteristics you’ve identified of effective managers, especially in times of chaos, are in the upper right hand box (Analytic and Optimistic). According to my book, we’re not likely to fall naturally into this box. This suggests that if you’re left-brain dominant, you need to cultivate your intuitive optimistic side. If on the other hand you’re right-brain dominant, you need to cultivate your analytic side and learn to aim before you shoot.”

The seminar closed on a “high”. We thanked them for their cases, insights and comments and told them. “This has been a great learning experience for us and the message for INCAE is clear. It’s clear that in rough seas one must keep moving. The boat that is dead in the water is likely to get swamped. You’ve encouraged us to risk audacious strategies; there is less to lose and more to gain. And without closing our eyes to the difficulties, we need to remain optimistic and energetic. We can all, INCAE with your support, make a difference in our troubled region!”

Family Costs

The decision to accept the INCAE job was a tough one for the whole family but I remember it as one which Deirdre and the kids supported. Recognizing that there were some risks, they agreed that I could not ask other faculty members and married students to take risks with their families by moving to Nicaragua if I were not taking my own. We thought the real risks were minimal but real enough to put in place a plan to deal with certain contingencies. Should any faculty member or student be put in jail for political reasons, I would go down and join them in jail and we would activate the larger INCAE family to raise holy hell, including the pro-Sandinista western Europeans and the Republican friends of don Chico that now included Bill Bain.

We felt that there might be some positives for Sarah, now ten, and Ken eight. In that they could begin to recoup the Spanish they had largely forgotten and have the experience of living abroad.

Unfortunately shortly after our arrival, in spite of an extensive search for a house with little mold, Deirdre had a serious asthma attack that required her evacuation back to the U.S. It became clear that she could not live in Nicaragua and my sister Clare, left her family in Brazil and came to help cover for Deirdre until we got things under control. Sarah and Ken remained with me, going to school, swimming at the end of the day in INCAE’s swimming pool, accompanying me on

INCAE RECTOR

trips to El Salvador and Guatemala. At the end of the school year, they returned to live with Deirdre, and I moved into bachelor quarters.

My work load and the stresses of the job during my period as rector put us all “in the red zone.” At that time I justified it as being temporary and the price for saving INCAE. In hindsight I have decided that I made a mistake. The price it imposed on the kids was too great, though they were great troopers. Deirdre’s asthma and the isolation from her children must have been a nightmare for her and the stress I put on myself reduced my effectiveness. I did not put the constraints on my work and travel load that would have made the job sustainable.

In early 1982 I turned over the Acting Rectorship to Marc Lindenberg, joined the INCAE board and returned to Boston to live with my family and rejoin Bain. I was proud of the turnaround of INCAE in which I had played a role, but I was eager to return to the private sector and my career in business.