Case Study

The BID-FOMIN Local Development Program to Promote the Competitiveness of SME Suppliers of Large Companies
Olavarría – Province of Buenos Aires, Argentina

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Implementation:
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Research:
Crisol Social Projects

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I. CONTEXT AND ENVIRONMENT

The presence of Small and Medium Enterprises (SMEs) within the economic structure of Latin America is quite significant in terms of the number of businesses, production and, most importantly, employment. In Argentina, SMEs comprise approximately 95% of existing companies and provide 60% of employment and 40% of GDP, with similar percentages in the rest of South America. The importance of SMEs lies in the fact that they are innovative, produce new technologies and create a culture of entrepreneurship.

Within the Argentinean economy, SMEs also play an important role in the creation of employment. As a result of recent changes in labor contracts after the economic recovery at the beginning of 2003, these businesses have been the most dynamic, generating more than 50% of the country’s total employment. Research based on the economic census over the past 20 years has shown that the smallest businesses generate more employment during economic boom periods than large companies. The same pattern holds for periods of recession or adjustment; the labor reduction is lower in small and medium-sized businesses than in larger businesses.1

SMEs are an important segment of the economy in Olavarria, a district in the province of Buenos Aires, where they make up 95% of all businesses. The 7,715 square kilometer area has a population of 104,000 (according to the National Population Census, 2001), a workforce of 40,000 and an unemployment rate of 12% (2004). Industry in Olavarria is highly diversified, as it is located in the province with the strongest economic activity in Argentina. Production in Buenos Aires makes up 36% of the national product, and approximately 55% of the total SMEs in the country are found in this region. Recent activity in the provincial economy has been very positive, reaching a record 234 billion pesos in production in 2006. Since 2003, its annual contribution to the national product has been 11%, remaining above the average contribution of 9% from other sectors. For Buenos Aires, this amounts to an accumulated growth of 50% in the past four years and an increased role in the Argentinean economy.

In terms of economic activity and agriculture, Buenos Aires boasts not only the majority of production but also the greatest variety in production in all of Argentina. It includes complex industries such as iron and steel, petroleum, construction material, auto-part production, automotive and agricultural machinery plants, plastic factories, hospital equipment, textile establishments and food and beverage producers. The participation of this provincial industry in total national production is approximately 50%.

Olavarria engages in a wide range of economic activity in mining, industrial, agricultural and commercial sectors. Mining is a major industry in Olavarria; the province produces 63% of domestic cement and 80% of domestic ceramics. It is the leader in the extraction and processing of limestone, dolomite rock and granite, used for large scale production of tiles and marble, granite and ceramic flooring. Livestock and agricultural sectors here are also outstanding. The area has the biggest cattle population in the province of Buenos Aires, totaling 675,000 heads, and also produces nearly 250,000 tons of cereals including corn, sunflowers, soy, wheat and oats.2

The area is also home to four major firms in the non-metal mineral industry as well as a broad range of SMEs that are suppliers to the manufacturing industry. These SME’s are a major economic factor, as they employ 80% of the local workforce. The importance of these firms in Olavarria, as in other provincial areas, stems from their strong commercial and productive links with diverse businesses and players, both locally and regionally. They are cornerstones of the local production network because of the business and employment opportunities they generate. The activities of local SMEs invigorate the production framework of the region as a whole, while providing real development possibilities with the ultimate goal of consolidating mature production chains to generate sustainable employment.

National Definition of a SME

There are many different definitions used by research centers and public organizations, but the official definition of an SME economic unit in Argentina is given by the Sub secretary of Small- and Medium-Sized Businesses and Regional Development (SESME). Under Resolution No. 675/2002 and Resolution No. 147/2006, the following classification was given by size and economic sector where the variable is invoicing, as detailed below:

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2 Olavarria is distinguished in being the region with the most accessible road links with MERCOSUR and all points in the country. It also has good sea ports, which gives it more potential in regards to development.
In Current US Dollars

<table>
<thead>
<tr>
<th>Sector Size</th>
<th>Farming</th>
<th>Industry &amp; Mining</th>
<th>Commerce</th>
<th>Services</th>
<th>Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Company</td>
<td>$152,000</td>
<td>$416,667</td>
<td>$616,667</td>
<td>$155,833</td>
<td>$160,000</td>
</tr>
<tr>
<td>Small Company</td>
<td>$1,013,333</td>
<td>$2,500,000</td>
<td>$3,700,000</td>
<td>$1,122,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Large Company</td>
<td>$6,080,000</td>
<td>$20,000,000</td>
<td>$29,600,000</td>
<td>$7,480,000</td>
<td>$8,000,000</td>
</tr>
</tbody>
</table>

Source: calculated in-house based on SESME Resolution No. 675/02 and 147/06

Total annual sales, not including aggregated or internal taxes, were taken into account to determine each business's categorization using the following formulas:

- A three-year average was calculated from the final inclusive balance or other adequately documented accounting data.
- In the case of the businesses less than three years old, the proportional average of the verified annual sales was used.

Environment for SME Development

A variety of support programs exist in Argentina to reduce obstacles in the development of SMEs. Despite the correct structure and intentions of these programs, they tend to be underutilized by broad sectors of SMEs. The reasons for this can be grouped into two categories:

a. Problems with supply: deficient dissemination of the programs in the different areas of the country; complexities in the access mechanisms; lack of adequate control by public entities (mostly from organizations too small to carry out the task); in some cases, lack of adaptation to the needs of the SMEs (in the content of the programs as well as the time needed to transmit them).

b. Problems with demand: heterogeneity of the SME sector (in its geographic location, sectors and size); small organizations which make it difficult for personnel to apply the programs; lack of knowledge about the importance of management and strategic consulting; large segments of SMEs lacking information on the programs, other markets or management tools.

In summary, there is a gap between the supply of public policies and the demand of the SMEs, particularly in the inner localities of the country. In these cases, there is a lack of precise intervention to lay out an optimal and lasting platform to efficiently connect the supply and demand. This requires that important segments of SMEs become aware of their needs from a broader and more strategic point of view, and that the programs are more adequately adapted to their specific needs. The intervention of FUNDES had that goal in mind: link the supply and demand, while creating a solid and convincing demonstrative effect. In other words, improve the competitiveness of the SMEs in a medium- or small-sized city with a significant industrial sector containing large, corporate plants and associated SMEs.

The business scene in which an SME operates is determined by a group of factors: regulatory framework, macroeconomic rules and policies, financing supply conditions, industrial strategies and policies, access to markets, the complexity of the production network and the technological and organizational characteristics of the main businesses in the leading manufacturing sectors. The competitive scene is, at the same time, influenced by the strategies, decisions, actions and structural traits of its players. Each participating economic agent and institution designs and implements strategies in this interaction process, which, measured in the general context, can become advantages or limitations for the rest of the participants. The factors described above can be called "environmental conditions."

Wide-ranging research on the SME sector in Argentina has shown its operating environment to be characterized by technological delay; a lack of access to input markets as well as external markets; scarce use of modern management techniques, commercialization and quality control; and difficulties in accessing financing and other information of interest. It has also been noted that in the majority of the cases, there is poor integration of the productive framework.

Nevertheless, in some cases, the small- and medium-sized businesses have been able to successfully insert themselves in international and domestic markets, which are continually under more competitive pressure due to the growth of opening economies in the region. They have also been able to increase both the quantity and variety of the economic agents as well as the range of specialization in the local economy, while reinforcing the social stability of the country. Unfortunately, it has not
been possible to achieve these results for the majority of the SMEs as it means going beyond simply increasing employment rates. It is of paramount importance to support SMEs in the context of open economies, where there are high quality standards and levels of competition.

The reasons for creating a better business environment for small- and medium-sized businesses are diverse. First, the importance of these economic units in the development of a competitive socioeconomic system goes beyond just being a major source of employment and production. As international experience has shown, a sustained development of these types of businesses strongly contributes to achieving improved distribution of income and expanding opportunities for social mobility. At the same time, it becomes a key factor in strengthening the stability and sustainability of the economy by giving the system more flexibility when faced with changes or external fluctuations. Therefore, the development of SMEs represents a set of benefits to society as a whole.

Secondly, beyond the impact of macroeconomic variables such as level of activity, interest and inflation rates, real exchange rates, etc., the problems SMEs face are very different from the ones large companies do. This is why a significant number of countries have development tools and programs that aim to satisfy the needs of these types of businesses separately. A better understanding of the role SMEs play in the economy would provide them with adequate treatment in an environment marked by improved operational and development conditions as well as equal access to opportunities.

Any strategy supporting the development of SMEs requires that the government and the private sector cooperate to set aside funds and provide joint financing. According to the prevailing focus of worldwide policies supporting small- and medium-sized business, the efficient promotion of positive conditions for SME development falls under the responsibility of the public sector and the interactions, both formal and informal, between various players, firms and institutions (governments, universities, chambers of commerce, research centers, businesses and financial agents). A favorable environment for the development of SMEs depends on public and private institutions' capacity to promote mechanisms that encourage participation, partnership, and consensus among all the players. This would help the firms to confidently move in favorable directions and create strategies tailored to their needs.

Although Argentina has designed tools to address the various problems that face SMEs, policies that have been implemented have not been effective. The reasons include the lack of involvement of the private sector in the creation of the programs, tools and their management; the programs' lack of orientation towards the public demand; and the great disconnect between the programs and the local and sectoral realities.

**Regulation**

In Argentina, SESME is the main national body in charge of designing, implementing and supervising public policies aimed at encouraging the development of SMEs and improving the integration of the production structure in all regions of the country. Similarly, there are other types of organizations with different territorial jurisdictions that assist and encourage the development of SMEs. Institutions whose main objective is to drive small and medium sized market segments also exist, and among these is the Argentina National Agency for Scientific and Technological Promotion (Spanish acronym: FONTAR). It develops projects to raise the level of technology in SMEs while also developing projects to increase the competitiveness of these businesses.

**Financing**

Access to financing is crucial for the expansion of market economies, and it is a determining factor in the evolution of SMEs. Wide-ranging analysis shows that these businesses have problems obtaining credit due to adverse financial conditions: high interest rates, inconvenient payment plans and guarantees that need to be given. To address this, there are many public and private tools focused on opening up access to bank financing for SMEs. A few of them are listed below:

- **SESME's Subsidized Rate Credit**: To facilitate access to credit for SMEs, the government created this system to take responsibility for part of the financing cost of loans that banks give to Argentinean SMEs.

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• **SESME's Productive Activity Financing**: The National Development Fund for SMEs is geared towards giving capital contributions and providing medium and long-term financing. This is aimed at existing or newly created micro, small- and medium-sized businesses and their associations.

• **SESME's Reciprocal Guarantee Societies**: Its objective is to facilitate access to credit through providing guarantees for any liabilities taken on by micro, small- or medium-sized businesses.

• **FOGABA (Province of Buenos Aires)**: This institution supports and promotes economic activity in the Province of Buenos Aires, through providing guarantees that allow SMEs to access credit in their territory.

**Infrastructure and Support Services**

The conditions of the infrastructure and services supporting production are also important elements in the development of SME activities. In relation to this, there are diverse incentives that cover the following areas:

• **Incentives for innovation and technology** stimulate and facilitate the development of new processes and programs among SMEs. They design or offer research services, subsidies for development and modernization technology, and offer support to protect intellectual property, among other activities (FONTAR, for example).

• **Technical assistance programs** are aimed at helping SMEs access a broad range of information and consulting services to improve their competitiveness. For example, SESME directs the Support Program for Entrepreneurial Restructuring (Spanish acronym: PRE), whose goal is to strengthen the competitiveness of SMEs through access to technical assistance and to improve the supply of the aforementioned services (including diverse development services for organizational and information systems, human resources, production infrastructure, products, quality control, etc). Another program is the SME Experience Program of the Ministry of Government Production in the province of Buenos Aires, which links entrepreneurs to SMEs looking to expand or professionalize.

• **Development of the cooperation of business clusters or value chains** are intended to create collective competitiveness. Examples include forums to discuss problems in business sectors, subsidies to facilitate association among business clusters or value chains and also private-public alliances to improve the business environment.

• **Professional and management training programs** encourage a greater investment in training and education of employees, managers and business owners with the aim to increase competitiveness. For example, subsidies have been created to reduce the costs of training courses.

• **Development of Enterprising Businesses** are programs created by the Secretary of Social Development, with the aim of supporting enterprising people from the first moment they develop their businesses.

• **Incentives for SMEs to sell to external markets** are actions carried out by the Export-Ar Foundation and the SESME PROARGENTINA Program where policies that tend to improve, diversify and increase exports in the Argentinean SME sector are encouraged. These incentives are geared towards optimizing the supply of exports and supporting production chains with the goal of increasing competitiveness and insertion on an international scale. They uses informational programs about international markets, including products, regulations, country business cultures, international buyer forums, international fairs, sector promotion trips, specific trainings and Argentina weeks in various countries.

**Poverty Reduction**

The important role the SMEs play in reducing poverty is related to their capacity to generate employment, through direct hiring as well as through their development in the production market and thus, in the labor market. According to statistical data on registered employment from the Ministry of Labor, the employment creation rate of small- and medium-sized businesses has been greater than that of large companies since the country's economic recovery. The attainment of employment by those who are below the poverty line and in conditions of extreme poverty results in immediate access to basic food and services that pull them out of their condition and into the labor market. Opportunities for social mobility are why it is crucially important to

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5 The Export-Ar Foundation is an institution, member of the Ministry of Foreign Affairs and Culture whose main objective is promoting Argentinean exports, which is developed and implemented through diverse actions by trying to insert Argentinean products around the world.
encourage these types of market segments. It is also necessary to provide human resources training to pave the way towards a better trained and better paid to meet the demand of the ever-growing market. However, the impact these types of actions have on the creation of skilled labor may not be noticeable in the short run, as human capital develops over a medium- and long-term time frame.

At present, diverse microprojects from less favored sectors of the population are supported by the public sector with the intention of reducing poverty. The Social Capital Fund manages a social capital fiduciary fund under the direction of the Ministry of Social Development of Argentina. Their main objective is to promote new forms of institutional credit for microenterprises with few resources. In the Framework of the National Plan for Local Development and Social Economy "Hands at Work" ("Manos de Obra") a unified platform has been implemented for technical support, financial and training services for microenterprises and small producers.

The Mission and Background of FUNDES

FUNDES was created in 1984 with the commitment to support the development of small- and medium-sized businesses and the fight against poverty through the creation of new jobs. Through its work, FUNDES has contributed significantly to the development of SMEs in Latin America and has put issues related to SMEs on the agendas of policy makers in the region. Through this vision, FUNDES-Argentina promotes and encourages the competitive development of SMEs.

In its early stages, FUNDES created guarantee fund programs as a strategy to leverage scarce resources to promote job creation through the development of small businesses. This pioneering program set the foundation for FUNDES ongoing work to promote SMEs.

Through its commitment to the same values and goals with which it was founded two decades ago, FUNDES develops wide-ranging programs and strategies in support of SMEs. Currently, it offers a variety of programs and trainings, a consultancy as well as environmental improvement services in Latin America. Its initiatives reflect its integrated standpoint, which seeks to link the work of the FUNDES branches in various countries with other elements and players related to the improvement of the SME environment, such as the supply of and access to financing and entrepreneurial development services. To this end, entrepreneurial and business networks are created, and their activities are centered on this vision.

Background of the Strategy of Fundes in Olavarria

The activities in Olavarria are framed within a series of initiatives that FUNDES has developed, started and promoted locally to foster the gradual evolutionary learning and incorporation of SMEs' competitive advantages through the cooperation of different levels of government, the private sector and civil society.

Their initiatives have covered different areas of institutional intervention:

- By stimulating joint learning processes between businesses in one sector, which creates a certain type of demand for training or other pre-competitive services, including support for local business associations;
- By promoting improved communication between large companies and SME suppliers in the present context of economic reconversion and competition that globalized markets impose;
- By giving special support to the creation of new businesses and the promotion of entrepreneurial development;
- By supporting increased interaction between SMEs and medium-sized institutions;
- By strengthening initiatives that attempt to systematically modernize the regional and local environment;
- By encouraging ecoefficient and environmentally sustainable practices.

Characteristics of the Local Development and SMEs Competitiveness Program (BID-FOMIN)

BID-FOMIN emerged by taking the needs of the local community into account, which were outlined in a joint Strategic Plan created by bringing local institutions together. It is led by a Promotion Board that includes public entities such as the

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6 The microprojects are initiatives for small-scale businesses, whether it is due to the level of capital involved or the scope of their participation in the market in the short term.
Municipality, FUNDES Argentina, the major companies in the area, and the engineering faculty of the National University of the Center of the Province of Buenos Aires. As stated in the text of the Plan:

The continuation of programs and initiatives in the medium and long term has a better outlook when citizens actively participate. This participation allows creativity and innovation capacity to reach its potential in society, thus creating valuable social capital. With this cause in mind, the Promoting Board, composed of civil society institutions, the private sector and the municipality, has a leading role in the development of the Plan.

The program works from the fundamental premise that support for production development should recognize and base itself on the realities of the local areas and the different participants’ needs, which requires a territorial and participatory approach. This focus, which could be characterized as “bottom up,” acknowledges the fundamental role that the local actors play in promoting the competitive advantage of their territories based on wide-ranging knowledge of factor markets, economic structure, culture and the prevailing institutional framework of the local area.

The general objective of BID-FOMIN is to:

promote economically sustainable development - through strategic and systematic actions in the public and production sector and civil society – in the municipality of Olavarria (in the Province of Buenos Aires); the municipality of Esquel (in the Province of Chubut) and in the states of San Justo-San Javier (in the Province of Santa Fe).

The Technical Cooperation with Refund Agreement (ATN/ME-7925-AR) was signed in September 2002, which allowed for the start of the implementation and execution of the program in the three microregions. The Agreement had a value of $3,400,000 over three years, 60% of which was provided by BID-FOMIN.

Thus, the Olavarria subprogram is part of the larger program, which includes two more localities. The strategies designed specifically for the Olavarria subprogram are grouped into three components:

- **Development of suppliers of large businesses:** Its aim is to improve the competitiveness of the production chain (mainly in the cement and ceramic sectors) by strengthening the subcontracting relationships between large and small businesses.

- **Development of sector clusters:** Its goal is to support association and cooperation between businesses, the public sector and support institutions, to create competitive advantages.

- **Strengthening of the local institutional network:** This component’s aim is to strengthen the institutional capacities of each entity within the production environment in Olavarria, while consolidating a local development model within the community, through association and synergy among local institutions.

Two common components that apply in all three localities also exist in the program. They have been called “horizontal components:”

- **Promotion of an entrepreneurial culture:** The program aims to promote the broadening and renewal of the entrepreneurial base in Olavarria, Esquel and Nordeste de Santa Fé, through specific development support activities for new entrepreneurs.

- **The establishment of a Territorial Information System:** This component aims to develop local systems of entrepreneurial economic information to allow for improved decision making among the local public and private players in the design, follow-up and evaluation of development policies.

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8 Non-refundable Technical Cooperation Agreement # ATN/ME-7925-AR. Program for Local Development and competitiveness of small businesses Annex A

9 This is the component on which the case study is based

10 Ibidem.

11 Ibidem.

12 Ibidem.

13 Ibidem.

14 Ibidem.
Institutional Structure of the Program

The program is led jointly by FUNDLES Argentina, the Foundation for Sustainable Human Development in Patagonia and the Potenciart Foundation. FUNDES presides over the Steering Committee, which is the governing authority of the Program, composed of one presiding representative and a deputy from each of the participating institutions.

The Local and Competitive Development of Small Businesses is one of two local development programs financed by BID-FOMIN in Latin America. The program has been in existence for 36 months at a cost of 3,340,000 dollars, 60% of which is comprised of contributions from BID-FOMIN with the remaining 40% coming from local contributions. The program does not intend to compete with services offered by the government or other entities but instead tries to complement them based on the demands of entrepreneurs themselves: the projects emerge from the local needs. The objective is to promote sustainable economic development through strategic actions in the public and production sectors and civil society. Here, local development elements and territorial competitive elements coincide.

Due to the territorial focus and local development that guided the program’s actions, different players in the community were targeted for their involvement, including Chambers of Commerce and Industry, different types of associations such as unions, trade unions, entrepreneurial chambers, educational institutions, and public organizations. Although throughout the experience there were variations in the level of their participation, they were invited to participate frequently.

The program has been operating in Olavarria for nearly five years. At present, the participation of BID-FOMIN has reached its end, and the management of the program has been taken on by the Municipality with the participation of the production sector. An operating structure has been proposed to promote competitive development among the local SMEs, placing emphasis on their roles as facilitators and communicators with government support programs, international organizations and private organizations.

The Program Implementation Unit (Spanish acronym: UEP) is located at the FUNDES Argentina offices, which is in charge of the technical and managerial coordination of the Program. FUNDES is responsible for providing the space, the general implementation logistics and remaining operating funds (40%) of the Program. There are Local Implementation Units (Spanish acronym: UEL) and Local Consulting Councils that are in charge of coordinating activities within their respective subprograms. The Agreement calls for the completion of two external evaluations, the first of which was carried out at the end of 2004 and the second in the middle of 2007 (see Results).

15 "Interamerican Development Bank – Multilateral Investment Fund"
16 Boscherini, Fabio Intermediate Evaluation of the Local Development and Competitiveness of Small Businesses Project (ATN/ME-7925-AR), December, 2004
17 Under the direction of Mazzonis, Danielle, Italian expert at BID
Figure 1: Organization Chart of the BID-FOMIN Program for local development and competitiveness of small businesses
II. THEORY OF CHANGE

Needs of the SME Sector

The intervention of the SME development project starts with a focus on systematic competitiveness, which stems not only from the efforts of individual businesses but also through the interactions variables and policies at four levels: the macro-economic level refers to variables outside of the territory such as monetary, fiscal and exchange rate policies; the "meta" level includes sociocultural factors and basic political, legal and economic organizational patterns; the "meso" level consists of local physical infrastructure and technology as well as environmental, rural, industrial and tourism policies; and the "micro" level concerns the actions of businesses and their relationship with their surroundings. It consists of commercialized and productive innovations, entrepreneurial management and technological capacity, labor relations, and integration of networks geared towards entrepreneurial cooperation.

The focus of the intervention strategy must take the relationship between the "micro", "meta" and "meso" levels into account. In this respect, the project focused on two types of innovations simultaneously: techniques of products and processes; and organization of production, development of products, and relationships with supply chains, clients and other businesses and institutions. In other words, the project was designed and implemented from the "micro" level, which led to improved relations at the "meso" and "meta" levels.

Based on the diagnosis of how SMEs participate in the productive framework of Olavarria, it was found that despite being major suppliers, large companies do not see the SMEs as key players. Their importance is based on their production and commercial links with other micro, small- and medium-sized suppliers. As mentioned above, the SMEs' considerable social impact stems from their labor intensive nature and the number of jobs they create.

Regarding the work of the SMEs in the territory, the following problems were found:

- Due to the recent crisis in 2001, payment chains were destroyed. This resulted in a profound deterioration in the relationship between large companies and small- and medium-sized businesses.
- SMEs were characterized by poor organization and management and a lack of a strategic vision, which led to a loss of business and development opportunities. The inefficiencies particularly presented obstacles to providing quality services.
- SMEs knowledge was limited, and they generally did not adopt appropriate management tools or planning techniques.
- Local small- and medium-sized businesses had difficulties obtaining competent counseling services and quality training.
- SMEs had trouble communicating and cooperating with each other as they have little experience with associations.
- They were highly dependent on the large companies that they supply, and there was little space for local SMEs to negotiate.

These factors have led to large companies to hire services from outside of Olavarria and essentially transfer technology out of the region. The outcome is that local SMEs are underutilized and the general competitiveness of the region suffers.

In summary, both local SMEs and large companies agreed that the focus should be on rebuilding the relationship between the two as well as the construction of horizontal relationships among SMEs. The technical aspects of the project promoted using management tools to achieve organizational improvements, developing communication strategies, and increasing participation of workers and employers in training. The non-technical facets included reconstructing of relationships from inside out, designing strategic business plans, and creating collective projects and social capital.

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18 The "macro" level consists of the stabilization of the basics necessary in an economy so that the factors, goods and capitals in the market can be assigned efficiently within the economy resources. The "meso" level refers to the efforts and promotion policies and specific growth that different structures within government have put in motion, geared towards creating dynamic competitive advantages through forming new structures and communicating learning processes. The "meta" level refers to the State capacity in running the economy and the existence of social organization patterns that mobilize the creative capacity of the society, both of which are necessary factors in the improvement of performance at all levels. Lastly, the "micro" level includes actions taken on by businesses in facing the new competitive scene, which is characterized by more competition internationally, the diversity in the demand and the fast disappearance of products and processes.
General Theory of Change

The environmental restrictions that create obstacles in the competitive development of SMEs can be seen as exogenous. There are existing views both in public, private and mixed institutions that work from different perspectives on SME issues and also in the businesses themselves. These two perspectives have some differences, but they also have some similarities, among which are: access to financing; inadequate entrepreneurial organization; imposing structures; low use and access of support tools; inadequate and difficult access to consultancy services, quality training and technology; and size problems in reaching more markets.

On the other hand, internal restrictions exist that are common to both institutions and SMEs, such as: limited structures to carry out diverse tasks within the business; difficulty in accessing qualified human resources (due to both lack of knowledge or lack of financial resources); difficulty in associating with each other due to trust problems, which is shown in the low level of social capital between them; and many problems directly related to the family structure of many SMEs. Consultants that are hired by institutions tend to emphasize the lack of knowledge of SMEs regarding management tools, regulations and legal aspects, along with difficulties in delegating tasks, internal organization problems and problems stemming from a limited or short term business strategy.

Taking into account the diverse obstacles that SMEs face and the relationship that exists among them, the intervention that was chosen was based on promoting changes that were geared towards overcoming those obstacles and had different effects in the short, medium and long term. The intervention focused on the short term through intensive work tailored to each business. New management tools were introduced, along with changes in management styles and the development of a broader and longer-term vision to allow for growth of the business. The goal was to fundamentally minimize the internal obstacles of these SMEs. At the same time, the consultancy program, then called the Diamond Method, was organized in such a way that it promoted associative processes among SMEs, so they could gain in terms of scale, access other markets and participate in new value chains in the medium term. Lastly, the efforts directed towards strengthening institutions were aimed at consolidating the aforementioned processes and decreasing external environmental restrictions. In this sense, suitable work at the businesses' level, along with specific tasks in the development of SME associations coupled with actions that tend to consolidate and institutionalize the process would achieve more competitive development in local SMEs and favorable growth in the local economy.

From a theoretic perspective, the arguments in favor of supporting SMEs through diverse interventions and actions are fundamentally based on the identification of market defects that create obstacles in their creation or development. Within this field and as an expression of the problems in a modern economy, the central questions related to the absence of perfect competition are the difficulties in accessing pioneering processes and the existence of obstacles in entering new markets and products. Consequently, there is an evident need for continuous personnel, production and management training, among other things.

A vast array of economic literature emphasizes what has been called “the new defects of the market,” highlighting aspects such as imperfect information and the existence of “incomplete markets.” Businesses have invested in research and development in this area in order to gain a return on the investments. In order for that return to be concrete, the competition has to be imperfect, in other words, there must be obstacles, at least temporarily, in the access to new processes and products, and this affects small- and medium-sized businesses more.

This situation, which characterizes the imperfect competitive markets that businesses are currently facing, makes way for external influences. In effect, the asymmetric distribution of information has consequences for the concentration of markets, which affects the distribution of income. In restricted competitive environments, due to the existence of defects in the market, businesses develop practices that restrain the competition further, such as lobbying the government to enact measures that benefit them, which frequently creates inefficiency and higher prices that generate extraordinary profits. In this sense, unbalanced information represents the fundamental reason behind unbalanced power situations. The promotion of SMEs through mechanisms that facilitate access to information has the positive effects of reducing in the levels of economic concentration and improving the distribution of income. This is not only about the spread of knowledge, but about working continuously and systematically with SMEs, accompanying and helping them in guiding their process of change towards more lasting competition.

These “new market defects” have allowed a potential intervention role to be identified in the context of the competition that businesses are facing due to changes in the production structure of countries affected by the globalization phenomenon, which has intensified inward and outward relationships between countries. Here, the intervention of the project in the production framework of society differs to support projects carried out in the past. Therefore, the type of intervention chosen for the

19 This point is noted more in the vision of institutions.
20 This method recognizes the background of the Repsol-YPF Supplier Development Project carried out by the National University of General Sarmiento, which was designed and implemented by Marcelo Neuman.
supplier Development Project in Olavarria confirms the general theory of change as developed through the new production dynamics of present times, in which the focus on systematic competitiveness is more suitable in encouraging local development.

Areas of Impact

The activities considered for the project were intended to have a holistic impact. In this sense, it was assumed that the direct impact would be seen in businesses at an individual level, while encouraging a business strategic vision on a longer time scale, promoting a change in entrepreneurial culture. Starting from the supplier development project in Olavarria, business articulation was insisted upon, on a horizontal level (among SMEs) as well as on a vertical level (between businesses in the same production chain, regardless of their size). Working in coordination with businesses was the goal, while simultaneously recognizing the commonly perceived problems or opportunities and considering interests and objectives that were codependent.

Specifically, a series of assumptions were made about the impact of the project on the SMEs:

- They would increase their competitive capacity, while adopting more professional management and increasing business opportunities.
- They would increase their productivity and their ability to offer improved services.
- They would start to use business management tools.
- They would be able to optimize planning in the short, medium and long term.
- They would modify their vision in terms of consulting and training needs.
- They would develop a more strategic vision of the business, which would eventually be reflected in increased profitability, among other things.

If these assumptions were correct, the SMEs, once the intervention was complete, would be in better condition to face crisis situations, economic adjustments and also to increase their profitability and competitiveness while broadening their area of operation outside of the locality.

All of this was conceived to obtain results that were more indirect but also crucial to the production community. The direct effects mentioned above would result in more effective communication among the players in the local area, which would in turn create a foundation for real local development.

Effects on Poverty

The primary assumption highlighted in the proposed intervention was that actions that tend to generate systematic competitiveness, whose primary source is the necessary knowledge to carry out their businesses, determine the appearance or dynamic competitive advantages. The main idea was to contribute towards creating foundations so that, through improvements, SMEs would be better prepared in facing the cycles of the economy. Concretely, it was assumed that they would be in better condition to hire personnel and, in times of growth, generate higher quality employment (new jobs and more qualified personnel), as well as maintain their working force during recession periods. This would result in the increased incorporation of a sustainable workforce. Behind this assumption is the belief, proven through practice throughout the experience of the production trajectory and its impact on labor markets in developed countries, that sustainable employment directly affects the reduction of poverty in societies.

The growing competitiveness of businesses results in increased access to more sophisticated markets. The development of industrial competitiveness is based on the technological progress that is involved in new technological advances and the organizational field. It is geared towards intraindustrial specialization and towards products that are part of technological advances. Thus, through the creation of an increased local aggregated value through the development of increasingly qualified jobs, the path of businesses towards production and participation in goods and services markets becomes inevitable.

In this sense, the supplier development project implemented in Olavarria, while tending to improve the links between large businesses and SMEs, was also through various components of the program based on the fundamental assumption of achieving genuine competition. Through this, the foundation for producing a sustainable impact in the job market was set.

SMEs vs. Microenterprises

One of the basic objectives of the project was to diversify the economic activity in the region, which is strongly concentrated in cement and ceramic production by large factories. The Supplier Development project, its primary programs and sub-programs were aimed to develop the competitiveness of these SMEs. In this sense, the project had the following statement as a motto: "A more competitive SME leads to an improved supplier."21 The idea was to strengthen the production network in the region so that there would be stronger suppliers for large businesses as well as provide the SMEs with the opportunity to access other industrial sectors and new markets nationally and even internationally. With this objective in mind, the concept of a complementary association was always at the forefront, and the sector that was in the best condition to adapt to a solid platform was the local SME sector, particularly SMEs that had a certain capacity and adequate technological level.

The decision to not include microenterprises in the project had to do with their weak capacity to apply the proposed changes. Large businesses were used because they were clients, whether presently or potentially, of the selected SMEs, but the activities with them were not the same as what was done with the primary group of SMEs in the project.

Finally, it is important to note that in the selection of the SMEs, the potential that they had for impact in other productive units in the zone was evaluated: their ability to demonstrate a spillover effect on the improvement of the competitiveness of the rest of the local production community. The final decision about which SMEs would participate in the program was made by the coordinator of the project based on the diagnosis that was included in the design of the Supplier Development project. The selection criterion that was used was as follows: the opinion of the client large companies, their impact on the local area, their willingness to participate in the program, their condition as a SME in the area and the opinion of the local coordinator of the subprogram in Olavarria.

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21 The coordinator of the project introduced this motto in the team work and project.
III. PROJECT STRATEGIES

Target SMEs

For the past two decades, more than 50% of the business owners of the supplier SMEs included in the program are a product of the “spill-over” of the large businesses. A small percentage, not more than 10%, has university degrees; however, the second generation, their sons and daughters, are university graduates. The age range of the owners’ children varies from approximately 22 to 32 years, while the owners are between 50 and 62 years of age.

We can place the employees in two categories. The first is the supervisors, among whom one can find personnel with vast experience in the sector. A high percentage of the supervisors possess adequate technical education, although not all of them have completed a higher education degree. The second category, the operators, have limited technical education. The everyday tasks of the personnel are mainly related to maintenance, repair or supervision of the cement and ceramic production plants. The employees of all the SMEs are members of the metal-mechanic or construction unions.

During 2004, the intervention was directed towards businesses that supplied large companies with plants in Olavarría. Due to the positive repercussions in the SME sector, it was extended to other suppliers and other SMEs that weren’t suppliers according to the following timeline:

1st Stage – 2004:

Eighteen businesses participated, more than 50% of which belonged to the metal-mechanic sector. Seventy percent had between four and 10 employees, 20% had between 11 and 45 employees, and the remaining had more than 45. In terms of equipment factors, these SMEs all had similar characteristics in terms of machinery and personnel training (engineering, technical and services). They had technical knowledge of their activities in manufacturing as well as in the supply of the goods or services required by their clients. Due to these circumstances, the SMEs had great potential for finding new business opportunities, whether jointly or individually. Nevertheless, they encountered difficulties in accessing professional and suitable consulting services, such as training tailored to their needs and the creation of more competitive capacity through more professional management.

Initially, the Supplier Development project was conceived to last four months during its first stage; its continuation depended on the results. The target set by the executive coordinators of the program and FUNDES was that approximately 70% of the selected SMEs would pay 50% of their costs. This goal was achieved, and as a result the program was extended for a second stage of four months.

The first extension of the project occurred in 2004, mainly directed towards smaller SMEs, most of which were suppliers to the first group of participating SMEs although some were direct suppliers to large firms. This second group of businesses that were assisted totaled 18, making the number of participating businesses 36.

2nd Stage – 2005:

The second extension of the project was directed towards 18 SMEs in other industrial sectors. Fifty-six percent of the selected businesses were in the service sector, and the remaining 44% were involved in manufacturing supplies for the construction sector. Eighty-three percent of these businesses had between one and 11 employees and the rest had up to 45.

3rd Stage – 2006/2007:

The third extension of the project was directed towards 23 SMEs mainly in the service sectors and metal-mechanic and engineering networks. Eight-five percent of these businesses had between three to 18 employees; approximately 10% had 40 and less than 5% had more than 100.

Development Components and their Impact

The development components of the business were as follows:

- High-density, comprehensive and specific consulting programs, which are regarded as the most significant of the three axes.

23 The Supplier Development Project formally started in 2003 through a series of courses and preliminary diagnosis for the SMES, but due to doubts in the businesses, the strategy had to be changed. In this sense, Marcelo Neuman was hired to design a new project. During the last months of 2003 a diagnosis of the situation was made, along with a new design for the Supplier Development Project, in which the Diamond Method was used.
• Training sessions directed at the SMEs' senior staff and middle managers.

• Meetings between large companies in the zone, SMEs and the team, set in the short term and in a commercial negotiation environment, with the aim of sharing opinions and creating joint strategies to benefit of both of the economic agents.

The development of the project was based on a pioneering consultancy system that was created out of the need to increase competitiveness in the SMEs. This system is called the Diamond Method (DM). The DM consists of two phases or stages: (1) construction of the system, and (2) its operation.

The first phase consists of the following activities:

• Broadening knowledge of the local area, especially regarding the structure of their production sector and the businesses that will be assisted by the project, along with their individual and collective difficulties.

• Selection of the group of businesses, accounting for their level of professionalism, as well as their size, difficulties, development perspectives and the objective of the project that will be carried out.

• Raising awareness in the local environment about the benefits of the program and possibilities of change.

• Seeking out consensus with the chosen businesses and their supporters (large companies in some cases) about the scope of the project and its objectives and operational methods.

• Selection of general consultants who also specialize in the businesses' key areas of activity.

• Creating the consultant teams, informing them and/or training them in the project's methodology.

• Assignment of consultants to business subgroups.

In the second phase, a network among the businesses should have been created during the development of the aforementioned activities. This network helped to build rapport between the head consultant and each business, paving the way for effective consulting work. The consultants were called “head” consultants due to their generalist nature; they could assist with a wide array of issues with which the businesses need help. The aim was not only provide the businesses with an improvement in their management, but also a space to reflect on the diverse problems they may have or that may arise. In this sense, the systematic support of the consultant and the project would create a sense of trust which would allow the entrepreneur to feel more ownership over the process of change.

The origin of the DM arose out of the need to solve defects in the management capacities of groups of businesses. In general, these businesses were located in a certain territory and needed to increase their levels of competitiveness. The DM was the answer to this complex challenge as there were no existing models to follow. This new consulting method, which was applied to groups of businesses, requires a different organizational structure and aims to strongly impact a group of businesses by professionalizing their management and creating cultural changes. To achieve these results, the DM responds to the problems of each particular business and common sets of problems at the same time.

The consultancy system is set up as a virtual association of entrepreneurs, which optimizes horizontal communication. It allows for the use of economies of scale in implementing changes or solutions, generating proposals that can be accepted by certain industrial sectors, stimulating associative processes in business to participate in new enterprises, creating local consultants that can continue with the consultancy work. Through all these methods, the businesses can identify with the project. Another aspect of the DM is that the changes at the group level are complementary to the individual changes within business, thus creating a positive business development circle.
The DM takes advantage of varied tools that are used in consultancy activities, such as SWOT analysis, creating an Action Plan and certain resources for specific training activities. Figure 2 shows us the evolution of the consultancy activity for each business.

Figure 2: Consulting Activities

Consulting Stages

- Diagnosis
- Action Plan (Indicators)
- Training Needs
- Implementation of Improvements
- TIME

REGARDING THE Profiles OF THE GENERAL CONSULTANTS, ONE OF THE GUIDELINES WAS TO ENSURE THAT THE SKILL SETS OF THE TEAM MEMBERS COMPLEMENTED EACH OTHER. FOR EXAMPLE, IF CONSULTANT A IS THE HEAD OF BUSINESS 6 AND DURING HIS CONSULTANCY WORK NEEDS TO SOLVE A PROBLEM (IN PRODUCTION MANAGEMENT, FOR EXAMPLE) AND IT DOESN'T FALL WITHIN HIS SPECIALIZATION, HE CAN GO TO THE HEAD CONSULTANT OF BUSINESS 4, WHO HAS EXPERIENCE IN THE SUBJECT. THIS METHOD GENERATED A SYNERGY AMONG THE TEAM MEMBERS AND THE GROUP OF BUSINESSES.


DURING THE DRAFTING OF THE ANALYSIS, THE CONSULTANTS DEFINED AND REACHED AN AGREEMENT WITH THE BUSINESSES ON THE TRAINING NEEDS. THEY CREATED A TRAINING PROGRAM FOR THE SET OF BUSINESSES THAT INCLUDED A SERIES OF WORKSHOPS WHICH WERE GENERALLY LED

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by the consultants in the team. The importance of these workshops not only lay in the training given, but also in two consequent effects: positioning the consultants as a point of reference for the group of businesses and the interaction among the businesses participating in the project. These workshops offered an opportunity to profoundly work on one of the strategic lines of the DM: the encouragement of communication between SMEs. The main obstacles that businesses face when developing joint projects are mistrust, short-term visions and, in many cases, personal problems, which block the synergy among SME entrepreneurs. Nevertheless, through the implementation of the DM, three businesses in Olavarria were able to increase their level of trust and work together to manufacture industrial ovens, which added to the aggregated value of the local economy, while allowing them to overcome one of the main problems in this local area—the significant dependence of service supplying SMEs on the large companies in the zone.

The purpose of the meetings between the SMEs, the consulting team and the large companies in the region was to create a space for dialogue without the influence of negotiation between the parties, nor the urgency of the short term. The objective of this dialogue was to create long-term relationships between these businesses, while searching for agreeable solutions for both. Creating this space was not an easy task, and it also required the participation not only of the managers of the large plants but also the supervisors within the large factories who are in frequent contact with the SMEs. In preparation for the meeting, the coordinator of the project and the team of consultants met with the decision-makers of the large company to plan the meeting. The details of the meeting were planned with the SMEs during the individual visits of the consultants. Given that there were four large companies, four meetings were held.

To increase the strategies’ impact on economic and social aspects as well as the interactions and tensions among the three axes; the internal problems of the SMEs were identified, and strategies were created to improve their businesses. It was assumed that this improvement would have an impact on economic and social aspects of the territory, building social capital through the improvements of the consultants and the SMEs, which would then increase their business opportunities and place an emphasis on cooperation in the local area.

In the SMEs specifically, the general objective was to increase their competitive capacities by increasing their productivity and ability to offer improved services. That way the businesses would use management tools, using short- and medium-term planning, which would have the following results:

- Starting down a path of change which contributes to cultural change;
- Appreciating the value of continuous improvement;
- Adopting new commercialization strategies;
- Effectively and efficiently using available and existing resources;
- More clearly identifying the training and counseling needs; and
- Creating a synergetic attitude among the local players.

Details of actual effect achieved are presented in the Results.

As mentioned previously, FUNDES develops strategies at a local level within the framework of a series of initiatives with the aim of encouraging the evolutionary path of learning and gradual incorporation of competitive advantages in SMEs through the creation of specific strategies among local players. Thus, during the selection and implementation of the strategy, the guiding institution had the specific know-how that resulted in this particular project being carried out using tested tools and adapting them to the local needs.

In particular, the experience of the consultants that FUNDES hired represents an aggregated value in the implementation of the project in Olavarria. The organizational culture of the institution along with BID-FOMIN has provided the project with crucial technical and administrative coordination and an efficient relationship with the Local Implementation Units and the Local Consultancy Councils. FUNDES also possesses an institutional capacity to raise and provide funds that provide financial sustainability during the implementation. Lastly, the past experiences of FUNDES in the implementation of joint programs with other organizations, which is the main characteristic of this program, has been an additional advantage in its execution. FUNDES has broad experience in working with different international organizations, governmental bodies and private organizations.
IV. PROJECT IMPLEMENTATION

Every stage of implementation of the project involved the direct participation of the players involved, in other words, those who are part of the problem who are dedicated to finding solutions and in a position to make a commitment. The legitimacy of the local development process is linked to the participation of all the sectors involved.

Participant Selection Criteria

The 18 businesses chosen in 2004 have been called the “Project’s system businesses” and were the result of a selection process that started in 2003, when local SMEs were invited to participate in a series of awareness and self-diagnosis courses on their entrepreneurial situation. As a result of these meetings, a method of exchange was proposed for the purpose of becoming familiar with the SMEs, listening to the entrepreneurs and analyzing their issues together. Subsequently, 40 businesses were visited and analyzed, and the 18 final participants were selected from this group.

The privileged selection criteria were:

- Interest and availability to participate;
- Being known in the local area so that they could represent the SME sector;
- Being suppliers to large companies in the area;
- Sharing the issues of the sector, even when some disagreements arise; and
- Sharing similar development and invoicing levels.

Because the project started to show positive results, it was extended to other industrial SMEs that were not suppliers to the large companies.

Selection of Assistance Methods

Traditional consulting methods for SMEs were rejected as they were excessively theoretical, abstract and thus, very distant from the daily reality of the SMEs. A significant devaluation of this traditional method was consequently found among all the players involved in the project. For this same reason, an alternative assistance model was considered, which would comply with the objective of encouraging professionalization of management within the SMEs, making them more competitive and at the same time, responding to their own demands and needs. An accompanying and “high density” consultancy was chosen as the assistance method, which, as mentioned above, was then called the Diamond Method.

This method is characterized by:

- Permanent accompaniment, as opposed to traditional training or technical assistance.
- Being tailored to the needs of each business, responding to the specific demands or helping them prepare themselves for them.
- Being carried out on site, while addressing the daily needs of each business.
- Organization of the consultancy and training as a virtual association of entrepreneurs.

The peculiarities of this consultancy came out of the need to solve problems, which in some cases were unheard of. In addition to the traditional themes regarding business and technical management, there were issues that arose from the recent crisis: the disappearance of effective protection in the sub-regional integration processes, transformations in information technology and communication, changes in labor organization, new commerce regulations, the role of networks and the changes sent in the production processes. It was definitely necessary to introduce intervention methods from within.

The consulting activity has the distinction of being supported by precise training, tailored to the needs of each small and medium sized business or set of SMEs. As the local coordinator of the BID-FOMIN sub-program in Olavarria stated:

25 It was simply named that due to the intensity of the consultancy.

The entrepreneur did not go to listen to a series of unfamiliar subjects, but instead went to discover how many of those things were already done or seen on a daily basis in their businesses and how they could be updated and applied to their business in a systematic manner to improve the competitiveness of their business. What am I talking about? We started to talk about command charts, customer care, how the macroeconomy affected our decisions, how management decisions were taken, in a setting where 17 or 18 entrepreneurs, in each course, would discuss their own achievements and setbacks according to the decisions that had been made.

Interaction with Clients

The interaction of the project with their clients was based on continuous and systematic interaction (accompanying) of the consultants and the businesses in searching for solutions to their issues. It was generally avoided that the expert “thought for the entrepreneur”, which commonly occurs in traditional technical assistance.

The concept of accompanying was extended as an interactive process between the expert and the social participant. This approach is especially valid in periods of strong changes in behavior, the mode of competition and in the attitude of the entrepreneurs. Likewise, the previous experience and knowledge of the SMEs entrepreneurs was taken into account and was used as the starting point, since they had been managing and directing their businesses for many years. The Director of the BID-FOMIN Program’s opinion on this was:

The accompaniment consisted of being with the entrepreneur, and the objective was not to give advice but to accompany them throughout their problems during a crisis (...) therefore the basic strategy was to change the mentality of the consultant so he could be more open with the businesses. The teaching-learning process had to be redressed.

The consultancy model is summarized in Figure 3.28

![Diagram of consultancy model]

This systematic team consulting method also allowed for the businesses and various consultants to form a network of relationships. It also encouraged greater interaction among the small- and medium-sized businesses as well as between the project’s coordinator and the SMEs and the SMEs and the Local Implementing. In this way, the “Diamond Method” recommended vertical communication between the SMEs and the large companies and horizontal communication among SMEs themselves. Figure 4 graphs out the “Diamond Method” used:

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27 Domaeq, Roberto
28 Extract from Marcelo Neuman: Strengthening the Supplier of Large Companies Development Project in Olavarria, 2004. Project presented to BID-FOMIN and FUNDES
29 Extract from: Neuman, Marcelo. Project for Strengthening of the Supplier Development Project. Final Report. Second Stage. July 2004. The businesses are numbered 1 to 18 and the large companies that participated in the project are in bold type. The dotted lines represent the relationships established between the SMEs.
As shown in the diagram, each general consultant was permanently referred to three businesses. When a specific subject arose, a specialized consultant was brought in, which in most of the cases was a general consultant assigned to another subgroup of the project.

The value that the SMEs put on the consulting services is demonstrated by the fact that the businesses assumed 50% of the training costs; this is a clear indication of their recognition of their needs and the effectiveness of the recommendations.

Internal and External Resources

Despite a pronounced lack of communication among the intermediate sectors at the beginning of the project, a series of internal and external resources were available for use to facilitate interaction such as exchange mechanisms between the public sector (through the Municipality), the Industrial Park Association, the Chamber of Enterprise and the large companies, which allowed the Local Implementation Unit to be sustainable from the beginning. These spaces were vital when reaching agreements between SMEs and large companies.

From the perspective of material resources, the large companies, with the support of the local public sector, contributed 40% of the funds that the BID-FOMIN program required.

Development of the Project

The project was developed in different stages. At the beginning the objectives were geared towards improving the competitiveness of small- and medium-sized businesses that are suppliers of large companies; later, it was decided that it would be beneficial to extend the method to SMEs in other industrial sectors. The decision to extend the method was made because of the success of the first stage. The indicators of this success were the opinions of the benefiting SMEs and large companies, the
high level of participation in the training sessions (not common in previous experiences), the change of course of the businesses stemming from action plans which arose from the recommendations. This last indicator has been, as the same time, an indicator of the SMEs’ ownership of the suggestions given. The interim external international evaluation was also considered to be successful at this stage.

During the first stage, which was aimed at the suppliers of the large companies, an organized consultancy system was developed as a virtual entrepreneur association under the DM described previously. The diamond schematic is a tool or method which aims to create relationships among businesses. The method is also shows the relationships among the consultants through the ties that link them.

Initially, three subgroups were selected for each consultant through the consideration of the following criteria: each SME’s profile, the issues and needs of each business, logistical criteria, competition criteria among businesses and their competitors and work load liberation criteria. Meetings were then arranged for the groups of three businesses so that they could meet each other, talk about particular issues and schedule the meetings where they would have to create an action plan. During these visits they agreed on the diagnosis, which took approximately a month and a half to create. Meanwhile, Small improvements were being implemented in the SMEs. At that point a Joint Action Plan was defined among the consultants and the SMEs: it consisted of setting agreed upon action plans on a work schedule, with dates, specific stakes and the identified the consultant in charge. Later meetings between the SMEs and large companies were organized along with the consultants to encourage communication between the large companies and the SMEs. The key in all this was the continuous and systematic accompaniment of the consultant with the business.

It is important to clarify that the development of the project under the DM is carried out in various interactive stages. In the first place, the selection of the consultants is central as the team should possess sufficient experience and adequate knowledge to be able to advise a SME business regarding its general management. This requires a vision of all the functional areas of a business and the relationship between them. Additionally, the consultant should have enough and proven knowledge of the specific issues concerning the business’s activities, such as production, quality, commercialization, finances, etc.

From the industrial standpoint a production system was applied to them, an ABC of their purchases. They were given tools and even new designs of work systems. Some of them were incorporated. They were also given quick advice on accounting-tax subjects. For example, I had to explain fiscal debits because they weren’t being done in the business where I was assigned. The entrepreneur learned how to prepare exports, how to create quotes, and how to add prices.

- Consultant

In this sense, the consultants that were selected were satisfactory. While they assisted the SMEs, training sessions for the consultants were also carried out so that when specific problems arose that the general consultant could not handle, he would be able to contact a consultant who possessed the specific knowledge. At that same time, when the SMEs were faced with similar problems, a consultancy process was created among them to find the best solution. It was observed through this that each player or vertex in the diamond worked in an effective way, contributing to the business and team, because unproductive participation from one of the members would reduce the efficiency of the model.

The objective of the improvement in the businesses involved the training of the local consultants in this methodology. With this in mind, a work team with three local consultants and three extra-zonal consultants was created. The extra-zonal consultants, who had more experience in consulting, were placed in the role of tutors for the local consultants during the different steps being developed. They sometimes gave technical advice through coaching methods; as the project was implemented, they shared their knowledge. The local consultants, at the same time, provided zone-specific information on the relationships among businesses, the diverse aspects related to the local area, as well as the technical knowledge they had on the large companies and on specific subjects related to business management. Sub-work teams were created within teams. These sub-groups are shown with thicker lines between the constitutive duos, as shown in the diamond figure (Figure 2).

The application of the DM created a new relationship between the consultants and the businesses. Creating a relationship of trust was important for carrying out precise consulting and implementation work within the competitiveness improvement process in the SMEs. Certain conditions were necessary to achieve this. To begin with, the head of the project had to gain the trust of the SMEs entrepreneurs and the managers in the large companies, as well as being suitable and committed to carrying out the plan. These factors were key in keeping the whole system together. Secondly, the consultancy team, on top of possessing

30 All of the members of the team in Olavarría had vast experience in industrial plants in companies in the zone.
knowledge on the required techniques and the SMEs, also had to show certain attitude traits: skills in interpersonal relationships, commitment towards results, the ability to adapt to the idiosyncrasies and different cultures of each local area, and the willingness to meet different requirements, which are sometimes outside of the logical framework of consulting.

These conditions were necessary to weave the web of relationships among entrepreneurs and consultants, but they would be insufficient if they did not include the permanent support of the consultant. This was the foundation upon which the relationship between the business and consultant was built, and it allowed the leaders of the businesses to see the consultants as mentors of the change that was being proposed and to trust that the methods used would achieve the desired results. With this in mind, before the most substantial changes were implemented, each consultant and entrepreneur had created and agreed upon a diagnosis of the business, which was the starting point for the Joint Action Plan. As mentioned previously, the Plan identified the different items that were to be dealt with, the activities that needed to be carried out, the time they required and the sequential order of each of the events.

Therefore, it can be said that this experience was qualitatively different from other types of support. The density and permanent support are facilitating factors in the businesses' internalization of the necessary changes. These provided the entrepreneurs with a more strategic and professional vision of their businesses, while stimulating cultural change from within (in the owners as well as the employees), which represented one of the points to be achieved.

A summary of the objectives and the expected results at the time of the design of the project are shown below.31

<table>
<thead>
<tr>
<th>General Objective</th>
<th>Specific Objectives</th>
<th>Expected Results</th>
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<tr>
<td>• Contribute to local development through the development of SMEs supplying to large companies in the area, while applying more professional management within businesses and encouraging communication among them to create a path towards cultural change, to facilitate improved competitiveness and promote improved communication with large companies.</td>
<td>• Improve strategic, operational, human resources and administration-accounting management tools in SMEs</td>
<td>• Adopt business management tools that improve administrative, operational and quality control management.</td>
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<td></td>
<td>• Analyze the diagnosis in depth and create plans for entrepreneurial change tailored to each business</td>
<td>• Provide for a more strategic business vision that encourages competitiveness and communication among SMEs.</td>
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<td></td>
<td>• Start the implementation of some of the initial changes</td>
<td>• Start the process of improved human resources qualifications through the training of personnel and improved internal communication.</td>
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<td></td>
<td>• Promptly train the SMEs' personnel in support of the change</td>
<td>• Create a path towards improved communication between large companies and SMEs.</td>
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<td></td>
<td>• Promote communication among SMEs through specific actions with this goal in mind.</td>
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<td></td>
<td>• Develop actions that allow for improved communication between the client businesses and supplier SMEs.</td>
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The original goals of the Large Company Suppliers Development Project were:

• That 80% of the target population participate in the project;

• That at least 70% of the SMEs are able to apply practices, which would allow them to professionalize their management practices and progressively improve their competitiveness.

• That as a result of a demonstrated effect on the first group of SMEs, another 12 SMEs could participate in the project.

• That at least six local consultants would appropriate and apply the methodology used.

• That these six consultants would replicate the training they received to at least another six consultants.

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31 Extract: Neuman, Marcelo "Project for Strengthening the Development of Suppliers of Large Companies", 2004
### Challenges in the Implementation

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<thead>
<tr>
<th>Challenges</th>
<th>Project responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Persuading the large companies to be involved in the project. This was slightly difficult to achieve because employees in the large companies were very pressed and stressed by daily activities. The government or an International Organization has political interests and interests linked to local development, but the private sector is not necessarily willing to invest time and resources to improve the competitiveness of their suppliers.</td>
<td>The companies were persuaded and involved through work in the Consultant Council and periodic interchange meetings between the consultants and representatives of the large companies. In this sense, the meetings of the Consultant Council, along with the participation of the large companies, was a space used by the project to progressively improve their understanding of the needs of the SMEs.</td>
</tr>
<tr>
<td>The integration of the consultancy team and the identification of a group method. Consulting work is usually done alone and so consultants tend to think and act from this individualistic method.</td>
<td>The management of the project worked heavily on group integration through periodic meetings, geared towards the consolidation and strengthening of the group. By including local consultants, the goal was to train human resources and create skills in the local area.</td>
</tr>
<tr>
<td>Win the trust of the SMEs to obtain the information required to collaborate in the process of change.</td>
<td>A consultant was assigned to each business to carry out on site support which would guarantee the continuity of the process.</td>
</tr>
</tbody>
</table>

### Extension of the Project

As mentioned above, the acceptance that the intervention had in the SME sector and the apparent success shown allowed the project to be extended to smaller SMEs that same year. In 2005 other SMEs in the industrial services sector were also included. In 2006 and to the present day, the accomplishments of the project are in the process of being replicated, geared towards another group of SMEs.

To reach the proposed goals and desired results, priority was given to the following strategies:  

- Combine consulting and training activities;  
- Raise awareness in the owners of SMEs about the need to invest time and dedication to improving the competitiveness of their business  
- Encourage the participation and commitment of the large companies  
- Guarantee systematic work during a time period  
- Create a stable work team with high levels of interaction

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32 Yuenia, Neuman, Marcelo: “Project for Strengthening the Development of Suppliers of Large Companies”, 2004
<table>
<thead>
<tr>
<th>Actions</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raising of awareness of the SME entrepreneurs concerning the need to create improvements in the competitiveness of their businesses.</td>
<td>Creation of awareness days and courses.</td>
</tr>
<tr>
<td>Creation of the group of businesses in the project.</td>
<td>Visits to SMEs to apply the selection criteria mentioned previously.</td>
</tr>
<tr>
<td>Creation of a group of general and specialized consultants.</td>
<td>Selection interviews and group meetings as well as continuous training of the local consultants.</td>
</tr>
<tr>
<td>Creation of the preliminary diagnosis of the SMEs.</td>
<td>Visits and interviews with the SMEs.</td>
</tr>
<tr>
<td>Design of tailored training courses.</td>
<td>Analysis of the preliminary diagnosis and of the training demands to create tailored training courses.</td>
</tr>
<tr>
<td>Giving of the training courses.</td>
<td>Creating outlines of training course content.</td>
</tr>
<tr>
<td>Execution of the Business Management Diagnosis.</td>
<td>Analysis of the preliminary diagnosis</td>
</tr>
<tr>
<td>Design of the Action Plan for each business.</td>
<td>Acquisition of on-site information (visits and interviews with businesses)</td>
</tr>
<tr>
<td>Incorporation of assistants and/or personnel that will assist in the process of change.</td>
<td>Acquisition of information from outside of the business.</td>
</tr>
<tr>
<td>Implementation of steps to transform the management of the SMEs in accordance with the Action Plan.</td>
<td>Analysis of information and FODA conclusions.</td>
</tr>
<tr>
<td>Development of meetings between the large companies and SMEs to encourage communication.</td>
<td>Visits to businesses to reach an agreement with the business managers and to decide on the first steps of change based on the Action Plan.</td>
</tr>
<tr>
<td>Replica of the SMEs model in other industrial sectors.</td>
<td>Pre-selection of advanced students at the National University of the Center of the Province of Buenos Aires.</td>
</tr>
<tr>
<td>Foundations for the creation of a Service Center.</td>
<td>Selection of a group of three students to present themselves to the manager(s) in the SMEs and/or to the designated person within the business.</td>
</tr>
<tr>
<td></td>
<td>Definitive selection and incorporation of assistants in the businesses.</td>
</tr>
<tr>
<td></td>
<td>Assistance of the consultants in implementing the support of the businesses.</td>
</tr>
<tr>
<td></td>
<td>Meetings between the consultants and the large companies.</td>
</tr>
<tr>
<td></td>
<td>Coordination of communication workshops.</td>
</tr>
<tr>
<td></td>
<td>Meetings of the SME entrepreneurs and the coordinators of the project.</td>
</tr>
<tr>
<td></td>
<td>Meetings between the SME and the designated person at UEL.</td>
</tr>
<tr>
<td></td>
<td>Assistance in legal, accounting and economic aspects of the businesses in the creation of precise communication projects.</td>
</tr>
<tr>
<td></td>
<td>Coaching for local consultants.</td>
</tr>
<tr>
<td></td>
<td>Extension of the Diamond Method to other SMEs in the local area who are not suppliers to large companies.</td>
</tr>
</tbody>
</table>
V. RESULTS

The results can be categorized as:

- direct, on a tangible level, measured by quantitative indicators, related to the impact in each one of the businesses, and
- indirect, of qualitative nature, interrelated with the economic conditions of the environment.

In the first category, we can highlight the different management tools that were developed during the implementation of the project or that were effectively applied within the structures of the participating SMEs. In this sense, during the passage of the project, a set of quantitative indicators were created to measure its progress. These indicators measured evolution within the most important functional areas of the businesses, such as human resources, marketing operations and finances. At the same time, each of these areas included a series of specific items that covered the application of management tools and improvements within the businesses. Thus, the global impact of the project was shown to us in an aggregated form from the perspective of the professionalization of the internal management of the SMEs.

In this regard, 80% of the participating businesses adopted management tools as a result of the work of the project, and 60% of the businesses internally restructured their business which allowed them to work more efficiently. Additionally, the training programs at both managerial, middle management and operational levels complemented the consultancy activities and were also very important in encouraging communication processes. The most relevant subjects included: quality, costs, human resources, teamwork, communication workshops, strategy and operations. It’s important to note that the courses always referred to specific problems related to the sector and the production chain where the businesses operated.

Among the management tools adopted:

- 40% were related to changes in the administrative-accounting and financial area (especially in cost systems, financial planning and the development of a control index in management);
- 25% were related to the implementation of specific software;
- 15% were related to organizational changes in the production system (organization of the planning system and control of production, lay-outs and stock);
- The remaining 20% were related to changes in the commercial area (mainly the segmentation of the market, the development of business plan, and the design of specific promotion materials).

Regarding internal restructuring:

- 70% involved the professionalization of economic and financial management, human resources (qualified personnel was added, mostly at the administrative level in the financial, human resources and management areas)
- The remaining 30% were divided into equal parts among the production area, where young professional engineers were added, and the direct hiring of service SMEs in the development of their commercial area.

The hiring of personnel, in quantitative terms of employment is not relevant, but it is in qualitative terms as it involved placing qualified personnel in areas where the SMEs were not accustomed to needing professional services. In this sense, it indicated a significant change in view of the owners of the businesses, who were more prepared to benefit from the advantages of economic growth, as well as to face adverse environments within the economy.

In terms of communication, after successive attempts throughout the project, an association of ten metal-mechanic companies had formed. This association allows them to access scaled economies and enter other markets other than cement production and construction. These businesses are currently negotiating contracts to supply two industrial sectors that do not have a physical presence in Olavarria: the construction of large ships in the south of Argentina and the extraction and transport of petroleum which is carried out in different parts of the country. Additionally, two businesses have started to offer their products to the international market. What is innovative about this is that they have made agreements so that some parts can be provided by other SMEs that participated with them in the same project, which is a sign of the vertical communication among the SMEs.

The growth of the Argentinean economy has fortunately driven the SME sector to use their existing capacities more and more and to make investments that increase those capacities. The SMEs that participated in the program were favored by this economic environment; the last estimates show an increase in employment of 35%. Seventy-five percent of the businesses have
said that they are in better condition to take advantage of this productive, reactivated environment. To be able to quantitatively specify how much of this employment generation came directly from the actions of the project would be a very difficult and tedious task that would also be highly subjective. The relationship between growth and employment corresponds to a known direct causality, but it is only possible to estimate in which way this relationship was caused by the work of the project. This estimate has been made through the opinions of the entrepreneurs and other participants on the improvement of the SMEs' preparation to take advantage of the benefits of growth.

On the other hand, given that at the moment in which this systematization is being made, the work of the project is still very recent, so the impact of this work, and thus, the relevance of the results, would be more precise in the mid to long term. Some of the results can be seen in the following items, but they refer to the identification of process rather than the final product.

Economic, Social and Cultural Results

Usually the results obtained from the work of a project tend to have a disparate effect on the beneficiaries. In this case, the impact differs according to the existing structure of each business, their level of maturity, their own traits and the attitude of the managers (clarity in seeing the benefits of applying the project).

...in some of the business, they carried out all of the objectives; others carried out aspects to help their production a little, but they didn't experience growth.

− Consultant

Business Impact

The greatest impact in the improvement of the business was seen at different levels in the SMEs. Nearly 80% of the SMEs showed clear results in the following factors:

• Increased organization and optimization of resources,
• Increase in professionalism and competitiveness,
• Increase in the marketing possibilities outside of the local area,
• Increase in sales, and
• Training of employees.

In terms of the training of employees, the focus was put on the supervisors and the operational personnel. The training covered aspects related to the management of personnel and team work.

The impact we intended was to save small businesses and give them a boost so that they could extend their services beyond the city. To do this they had to have a solid and more logical structure. This objective was reached in some of the cases.

− Employee of a large company

Towards the end of 2006, 30% of the participating businesses in the first part of the project had tripled their sales and some of them had started to export.

− Executive Coordinator of the BID-FOMOND Program

They started to interact with us and see things they hadn't seen before. Getting organized doesn't always require new systems nor new resources but just a different way of managing. ... They had information, but since they didn't know how to process it, they didn't know how it could be useful in the decision-making process. Reorganizing businesses requires that the entrepreneur becomes aware of the virtues of planning, especially in the economic-financial area.

− Consultant
We ended up using a command table and with very clear administrative procedures for everything.

— SME Entrepreneur

We worked with a consultant in the engineering part. We worked on the cost of the jobs and this helped us to put ourselves in the records to participate in public bids.

— SME Entrepreneur

Cultural, Social and Economic Impact

The main social and cultural impact that was visible at an economic level was the improvement in strategic vision among the entrepreneurs: identifying the importance of valuing and investing in human resources and training and expanding themselves outside of the local markets. These effects were strengthened by the macro situation of favorable domestic policies.

There was an entrepreneur who explained the view he had about the project, and he said that he saw things from the point of view of steel, in other words, from the steel engineering point of view. He didn’t know he had another business which was management, sales, marketing and that the project turned those areas around significantly. Now he places great importance in general management issues of his business.

— Ex-employee of FUNDES, who was in charge of general management during the implementation of the project

The greatest impact was cultural. There was a change in vision, seeing things in the longer term, understanding the importance of integration, the development of the business, connecting the different areas in the business.

— Coordinator of the Project

There is a change in attitude ... they are looking over issues that were never looked over before ... they are reviewed work methods, which in the past was different ... they are starting to do something intelligent: putting a question mark where they used to be an assertion.

— Consultant

The greatest virtue of the project, I think, was that it made you think and see the business in another way. We confirmed some things that we knew needed to be changed and we discovered new needs.

— SME Entrepreneur

The main consequence of participating in the project was the change in vision that I had as an entrepreneur. I have a more global idea when I think of the business and I have been transmitting it to the rest of the team. We have integrated areas and we work better. I can think about the future with more clarity.

— SME Entrepreneur

Sociocultural Impact on the Local Employers

The most relevant actions of sociocultural impact on the local employers have been their own consolidation process as a sector and the increase in trust in consulting and training. A great flexibility in incorporating new technologies was also observed.

I had personally not had any experience with consultancy and I didn’t trust that it would be so useful. Although I have a lot of criticisms and think that it could improve a lot, I have recognized that it is a necessary task and is beneficial for the SMEs.

— SME entrepreneur
As result of the project, some of the entrepreneurs are more in touch with each other, we have joint work projects and we have created the Industrial Center.

- SME Entrepreneur

In our case, the assimilation of tools, which seemed to be something very distant in the past, helped us to speed up administrative management. It allowed us to have a better picture of the costs, budgets and planning in the long term.

- SME Entrepreneur

There were many advances in the assimilation of technology. Having an important supplier using manual charts led us to suggest computerizing it, and that had to be set up.

- Consultant

Employment Creation and Retention

During the execution of the project, some SMEs hired students from Universities with faculties in Olavarria as assistants; others hired or used trained personnel with specific experience. Because of this, the hiring of the personnel was prompt and didn’t have an impact in quantitative terms (less than 5%), but the change, in qualitative terms, was highly relevant given that for the first time in their history the businesses started to hire more qualified personnel with university or higher-level education. The degree of professionalization that the SMEs started to use, in the assimilation of qualified human resources, as well as management tools and the change of vision of the owners, created conditions that could take advantage of favorable economic conditions. Many SMEs decided to improve certain areas that were not previously attended properly, such as human resources, economic-finances and the organization of manufacturing processes.

In this sense, the impact on the creation of employment was strengthened along with the economic reactivation of the country and the local area. The large companies had a greater demand, which increased the production in SMEs and then, consequently, new personnel was hired.

Two new employees were hired. We had the consultant’s talks in mind during the selection process. We hired people with experience and during a short time an assistant who was an industrial engineer helped us in the strategic planning in the commercialization area.

- SME Entrepreneur

An area that didn’t exist before was created: the commercial area and a person with a qualification that this area required was hired.

- SME Entrepreneur

Having participated in this project broadened my vision as an entrepreneur, and it was the kick behind a lot of steps that are being developed today, such as the search for a person that can develop the commercial area and the image of the business and another who can promote my products in different parts of the country.

- SME entrepreneur

Results for the Business Units and their Owners

Impact on Management Processes

The existence of an improved adaptation of the profiles in the SMEs’ human resource departments positively affects management processes. There is less repetition of tasks, while economic and physical resources are more optimized and better complement each other.
Changes in the management system were implemented. This area was organized better, and the way of producing costs was improved and became more efficient. The invoicing and work methods were improved; an assistant was hired and a commercial department was created.

SME Entrepreneur

As a consequence of the consultancy, we were trying to distribute roles to lessen my tasks as the owner of the business. Although I am still managing all the areas, I have delegated some tasks to two employees.

SME Entrepreneur

The improvement of management processes is also related to the integration of quality control systems.

Many businesses have grown from the perspective of quality and safety. They hired safety and certification system personnel, which was impossible for them to conceive beforehand. ... the mentality of the SME entrepreneur has been changing over time ... a person who comes to work does not come to work under the same conditions as before. Now an accident is not accepted.

Manager of a large business

Impact on Competitiveness

The improved competitiveness for 80% of the SMEs is the result of a set of factors of change, some of which have been mentioned previously.

The impact was noticed in the management system. The changes that were made sped up work and increased competitiveness, because it was easier than before to have a daily or periodic update of the business.

Consultant

A door was evidently opened to them. A door to competitiveness that they didn't have access to before, to knowledge they could not obtain, to opportunities they couldn't have.

Employee at a large company

Social Capital and Cultural Change

The construction of social capital is linked to intangible changes that are carried out in a business and occur during the whole process. Not all the members of a business participate in the same way. This process has been more evident in those businesses that have people who identify with the change and are in the position to lead it.

Another one of the impacts at this level is the heightened degree of communication.

As a consequence of this project, some of the entrepreneurs have improved communication among themselves: they have started joint projects and they have created an Industrial Center with the aim of taking advantages of opportunities together and improving their negotiating position with local and national government organizations.

SME Entrepreneur

The relationship with other businesses in the sector was reinforced. We have been able to come together to try to solve problems and we are getting organized at the moment. We hired a facilitator to direct the meetings, and we don't waste time during the discussions.

SME Entrepreneur

Results for other Stakeholders

Improvements in the Business Environment

Results are still sparse at this level. The business environment is in the process of transformation, as mentioned previously.
thanks to improvements in the socioeconomic conditions of the country. The relationship between the private and public sectors have not shown any significant changes, except for specific cases. For example, an SME entrepreneur who participated in the project is now the Secretary of Production in local government. The achievements of the FUNDES BID-FOMIN Program in Olavarría had an influence over that placement.

*Communication among businesses is not a strong point in Olavarría. Olavarría is an area of high development but possesses traditional structures; it’s characterized by dispersed relationships and strong individualistic behavior.*  

---  

*Coordinator of the BID-FOMIN Program*

*Thanks to the general improvement in the business environment and that we started to meet at the Industrial Center, we saw that we had to take advantage of more joint opportunities and improve our negotiation skills with government, local and national organizations.*  

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*SME Entrepreneur*

*The relationship with the Municipality has improved. We can also sit and talk on a national or provincial level which we weren’t able to do alone.*  

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*SME Entrepreneur*

**Impact on Employees, Entrepreneurs and Local Community**

The impact has been greater on those directly benefiting from the project: the SMEs supplying large companies first and other SMEs in the following stages. Some family business took advantage of the consultancy to look over aspects of their organization.

*We are going through a generation change, and we had a lot of questions about how to go through this period, about how a business which is mainly run by family works. Once aspects of internal organization were addressed, the confusion of roles in mixing family and business was cleared up.*  

---  

*Family employee of SME Entrepreneur*

*We have second-generation family members here who are professionals who put themselves in charge of certain areas but we hadn’t given them official titles. We drew an organizational chart, in search of organization and to define our roles and responsibilities.*  

---  

*Family of a SME Entrepreneur*

Below is a chart which shows the three components of the project and the results achieved by the majority of the participants. The chart shows the starting points, the changes that occurred during the implementation process and the impact that can be presently observed.
<table>
<thead>
<tr>
<th>Components of the Project</th>
<th>Starting Point</th>
<th>Changes during Implementation</th>
<th>Impact of Current Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High Density Consultancy Programs</strong></td>
<td>There was a low level of organization and management in the businesses. A lack of strategic vision was observed. There was little knowledge about existing management tools. There were difficulties in planning at the medium and long term.</td>
<td>During work with the consultants, management tools were introduced. They little by little understood the importance of strategic planning.</td>
<td>Changes in the cost and budget systems were observed. They were able to incorporate commercial and financial management tools (production control charts, merchandise release control, and follow up of economic availability. They assimilated tools and strategic planning concepts, quality control certification systems (which makes them into more competitive businesses).</td>
</tr>
<tr>
<td><strong>Training Sessions</strong></td>
<td>They had little or no concept of subjects related to management of human resources and accounting financial management of the business (follow up on accounting, definition of budgets in relation to the market and of the production costs involved, costs of bank leaks, etc.)</td>
<td>Due to their participation in the courses, they started to incorporate concepts and tools to manage their business in a more professional manner. This was increased through practice in the consultancy.</td>
<td></td>
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</tbody>
</table>

30
Meetings Among Large Companies, SMEs and the Project Team

<table>
<thead>
<tr>
<th>Meetings among SMEs (horizontal relationships)</th>
<th>Meetings between large companies and SMEs (vertical relationships)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The SMEs had practically no interaction.</td>
<td>The relationships were generally unbalanced.</td>
</tr>
<tr>
<td>They showed resistance to communication and they had little experience in associations.</td>
<td>The SMEs limited themselves to responding to the needs and demands of the large companies, with a small margin of negotiation.</td>
</tr>
<tr>
<td>They started to get to know each other and interact in a more systematic way.</td>
<td>The project created a space for mediation between the large companies and the SMEs, by recognizing that there were tensions in sector interest.</td>
</tr>
<tr>
<td>They increased cooperation.</td>
<td>The large companies started to pay attention to the needs of the SMEs.</td>
</tr>
<tr>
<td>They became aware of the need to work together.</td>
<td></td>
</tr>
<tr>
<td>There was openness and willingness to create a group that would allow them to expand their business outside of the region. A constitution for a UTE (Transitory Union) was created within this framework.</td>
<td>The interaction and communication has improved. Some bigger contracts have been made due to the more favorable economic situation. The spaces for negotiations still need to be increased.</td>
</tr>
</tbody>
</table>

Actions that were geared towards encouraging the meeting of the public and private sector were also carried out during the development of the project. Nevertheless, these actions could not be strictly credited to the project, but to the BID-FOMIN Program for SMEs competitiveness of which the Development project is a part.

Bringing the public and private sectors together was not easy to do, given that at times, opposing views were expressed concerning problems related to production and employment. There were also rivalries among the different local sectors. Nevertheless, some governmental organizations, private businesses and local institutions were brought together; there is an increased interaction now among the SME sector and some local government institutions. An important achievement was a call at the state government level to sign an agreement that includes 10 of the local SMEs participating in the Program.33

Successful and Unsuccessful Components

The high density consultancy was the most successful component, in terms of its level of use and acceptance, and therefore, its results. One of the reasons for its success was the method that was used (the high density support used in the DM) and the adaptability of the consultants visiting the businesses at times which were convenient for the entrepreneurs. This consulting support has contributed to solving difficulties in transferring knowledge to daily practice and solving concrete problems.

Secondly, there were training sessions that covered the subjects related to work and were useful for the entrepreneurs, in that they were tailored to their needs. It was, however, a challenge for the consultants (most of who were in the consultancy team) in terms of the heterogeneous nature of the knowledge and experience of the participants. The schedule and availability of mid-level personnel when the training was not carried out at the plant were obstacles that the development of this component had to face.

The third and least successful component was meetings among large companies, the SMEs and the project team. The difficulties in making this aspect more successful were:

- Little experience in the communication of activities in the local area,
- Competition among some businesses in the same network.

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33 This is regarding an agreement encouraged by the SMF Secretary of the Ministry of Economy and Production of the Nation, who had called on 10 metal-mechanic businesses in Olavarria that were participating in the program, based on their degree of association with the cement industry, their competitiveness and their interest in exporting.
• Need for more time to achieve the improvements, and
• Tension due to differing interest between the large companies and the SMEs.

The following chart summarizes the strengths and weaknesses of each of the players.

<table>
<thead>
<tr>
<th>Players</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
</table>
| SMEs        | • Greater professionalization in the management of their businesses (in terms of organization, management-accounting, communications, commercially, etc.).  
• They accomplished control in management by searching for information in the decision making process.  
• They value horizontal links much more than before participating in the Program.  
• They aim for more communication with the political sector.  
• Change of vision in the future planning of the business.  
• Training of personnel.  
• Commitment from personnel. | • The delegation of tasks and distribution of responsibility which required improved management is not easy in the smaller SMEs, where multitasking is common.  
• More time for implementation is necessary if substantial changes in the business need to be achieved.  
• The improvement of the economic situation of the country and the local area after the crisis at the beginning of the decade is not reflected similarly in the sector.  
• There is not a change in focus in the large companies. The project did not work with them enough.  
• Time is a key factor: the time the consultants dedicated was not enough, nor was the time dedicated by the managers and some SMEs for the training to be optimal.  
• More control and adjustments in the organization of the courses in terms of quality and quantity are still needed. |
| Large Companies | • The Program was an important incentive in the improvement of the sector. The impact that can be seen today is related to the improved economic situation of the country and local area.  
• The SMEs that were involved in the Program are in better conditions to adapt to the changes in the context and transcend beyond the limitations of the local area.  
• The direct participation of the consultants in the businesses is a valuable strategy for greater efficiency.  
• The SMEs have incorporated more technical profiles in their businesses.  
• The public sector has actively participated in the development of the project. | • The Project should have spread itself more in the local area to have a greater impact.  
• The family structure of the SMEs is an obstacle in their development (generational conflicts).  
• The consultants don’t always adapt their technical language to the comprehension of the SMEs.  
• There needs to be more precision in the assessment of the initial situation to evaluate the real impact. |
The method used is innovative and effective. A new consultancy model was applied.

The project has a positive impact when the businesses are open to change.

Some SME businesses started significant transformation and improvement processes.

There were significant changes in the visions of the SME entrepreneurs (long term planning, identification of the importance of being independent and expanding).

The Project had an impact on SMEs and also on their families. In some cases the intergenerational roles became more flexible.

There were differences among the profiles of the consultants, which were reflected in the results obtained at the different businesses.

Except in isolated cases, significant changes in the relationship between the large companies and the SMEs were not perceived.

The resistance to change by the SMEs acted as a stop in the project, in the businesses themselves and in the local sector.

<table>
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<tr>
<td>Consultants and Those Implementing the Changes</td>
<td>• The method used is innovative and effective. A new consultancy model was applied. • The project has a positive impact when the businesses are open to change. • Some SME businesses started significant transformation and improvement processes. • There were significant changes in the visions of the SME entrepreneurs (long term planning, identification of the importance of being independent and expanding). • The Project had an impact on SMEs and also on their families. In some cases the intergenerational roles became more flexible.</td>
<td>• There were differences among the profiles of the consultants, which were reflected in the results obtained at the different businesses. • Except in isolated cases, significant changes in the relationship between the large companies and the SMEs were not perceived. • The resistance to change by the SMEs acted as a stop in the project, in the businesses themselves and in the local sector.</td>
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Finally, it is worth mentioning the main conclusions of the external evaluation reports. Regarding the 2004 report, the evaluation given by the entrepreneurs about the supplier development project discussed its quality, the relevance of the consultancy, and their motivation to implement the changes that broadened their view of their business. The report also mentions the change in attitude of the SMEs concerning communication among SMEs. Regarding the final external evaluation report, some aspects were highlighted regarding the businesses such as: the supply of consultancy and specialized training services were established locally for SMEs, including suppliers of large companies and businesses that do not supply to them; a change in the entrepreneurs' mentality was achieved which led to new opportunities; the metal-mechanic clusters were strengthened and mobilized; and lastly, the establishment of the cluster was a symbol of the possibilities and advantages of carrying out joint ventures.
VI. CONCLUSION

Lessons Learned

The main lessons learned are presented below, along with suggestions of what to do and why this experience should be replicated:

- In the beginning, establish a baseline on the situation of the sector and its context. This allows for a more precise evaluation of the impact of the project's work.

- Raise the awareness of the large companies about the need to be committed to local development. For the competitiveness of the SMEs to develop in the territory, it's necessary to overcome the defenses of the sector interests and establish more balanced relationships.

- Consider the economic contribution of the SMEs themselves in the assistance and training process. If they invest in their own training, paying a percentage of the cost, one can better guarantee the possibilities of continuity of the strategy once the external financial support has ended. It is an indicator to measure their commitment to participation.

- The training of local human resources should be based on a training model which focuses on the consultants with a focus on the productive and local development. It is important to share a common reference framework.

- The general view of the intervention, in addition to including the problems within the management of the businesses and the vertical and horizontal communications, should also focus on the market defects of the industrial economic activities that are being analyzed. This would broaden the vision, the intervention actions and it would contribute to creating information for new projects that encourage improvements in competition.

- It is important that the local financial sector or a political-institutional organization is given a place in the consulting group. The participation of this sector is crucial in the entrepreneurial development process.

- The experience of this project shows the need to go more in depth with intense consulting as an effective method of technical assistance to SME entrepreneurs and shows the limitations of the traditional consultancy products.

- The change in entrepreneurial vision and the introduction of management technologies have been two central factors in the development of the implementation of the project.

- The financial contribution of the SMEs in the assistance and training process during the first stage of intervention is an important achievement indicator, not only in terms of the sustainability of the activity, but also as an acknowledgement of the work of the consultants and the advance in awareness of the entrepreneurs.

- If you want to achieve an impact in local development, it would be important to strengthen these kinds of projects through policies at the local, state and nation level that promote the development of local suppliers and encourage a commitment and active involvement of large companies that have factories in the zone.

Replication Possibilities

The replication of this model is highly feasible. In fact, the possibility of extending it to other sectors of the production community is apparent in the same local area. Moreover, the experience from this case study has become evidence of its effectiveness, and it is being applied in another local area with a different production profile in Argentina.

Some of the favoring principles of the experience are:

- A SME sector with the need to grow, develop itself, willingness to invest time and resources with this aim in mind.

- A local community that can be encouraged by the participation and commitment of numerous players.

- A team of professionals that is suitable for the methodology.

- Large companies that are willing to support the development of their suppliers.

The method is flexible and adaptable to different industrial realities and the operational costs should be adjusted to each reality. A simple version of this methodology could be carried out with a minimum of $50,000, approximately. If a more complete or complex project is needed, the costs would rise.
In summary, as FUNDES observed through its intervention, carrying out a local development SMEs competitiveness project in Olavarria was made possible by the confluence of numerous factors, including:

- The existence of political will and budgeted resources to carry out modernization;
- The existence of a productive profile and identity;
- A management model that involves the agreement of the greatest amount possible of local players;
- The establishment of a relationship of trust through participation and transparent methods which allow for the growth of shared values; and
- The availability of technical profiles that can guide the project.