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Small-Scale Enterprise Development in Morocco

PROJECT

A. Project Goals and Objectives

1. Goals

. improve Morocco's economic condition and add vitality to its private sector

. instill entrepreneurial habits among owners of participating small businesses

. persuade small businessmen that credit is not the automatic or the only solution to their problems

. persuade small businessmen that efficient management can help them to increase profits and to manage their money better

. introduce management extension services as part and parcel of small business development strategies

. address the problems of unemployment and balance of payments deficit

2. Objectives

.train and develop a cadre of ten management consultants offering free on-site advice to 120 small manufacturing businesses in Casablanca and Marrakech

. increase profits and improve the performance for 120 small businesses over thirty months (alternatively, to increase employment, stock, equipment, or sophistication)

. allow small businesses to be able to measure their own progress

. strengthen the capacity of hóst-country institutions to assist small businesses

. sustain dialogue between the project staff and appropriate GOM ministries as a means of advocating policy changes in favor of small businesses

B. Target Group

. businesses in Casablanca (80) and in Marrakech (40)

. businesses in several sub-sectors judged as most promising for expansion

. businesses that have established themselves and have proven their viability for at least five years

. businesses with limited access to credit and management assistance

. businesses with owners as producing managers or participating managers

. businesses willing to open up their books to outside consultants

C. <u>Project Approach: Subsector v. Classical Management</u>

Research projects on small scale enterprise development traditionally emphasize a firm's performance and internal characteristics over external constraints. This familiar management approach asks how does a company improve a given situation with the tools on hand? Insofar as this project seeks to make small businessmen better managers, the approach is on the money.

While useful in gaining firm-oriented, internal information, the traditional approach does not put in relief key issues of enterprise development. It fails to look at the systems in which small businesses operate. Where the management approach is weak, the subsector approach is strong - stressing the interdependency of economic units. As subsector analysis has not yet displaced conventional wisdom, a summary of the approach may be needed for clarification.

A subsector is the sum of various paths through the production-distribution system for one product or a group of related products. Three aspects figure in a production-distribution system: functions, co-ordination, and actors. Functions are the sequential "jobs to be done" in production (eg., in clothing - spinning, weaving, printing, and sewing). Co-ordination means linkages, how the functions progress, through (1) a chain of decisions in a hierarchical structure, (2) sale of a product on a spot market, or (3) forward market sale, entailing orders and sub-contracting.

Actors are the system participants. Their roles reveal vertical integration (the number of functions under one decision-maker) and horizontal concentration (the volume of product handled by any one producer for any particular function).

Inherently dynamic, subsector analysis emphasizes how the actors and actions fit together. Strengths and weaknesses of the differemt production-distribution channels determine changes in the subsector.

In "systems" parlance, a small producer can succeed by focusing on areas where the production-distribution system is bunched up (one actor can handle a wide range of functions) or by running a few of the steps in a more complex system. In the first instance, future prospects depend on how well simplified arrangements hold their own against competition from more sophisticated systems. In the second, vertical linkages are key: backwards to input suppliers and forward to wholesalers, retailers, and final consumers. Here, small producers must stake their claim against alternative production channels.

Nothing new here. Yet in small scale enterprise development, the advantages of the subsector framework lie in its capacity to zero in on some central issues in small business viability, examine small producers in the context of their system of vertical linkages, and compare that system with alternative, competing channels. The subsector map, a central tool for the approach, presents the subsector landscape and clarifies the position of small enterprises within it. An example is included in the Appendix.

In using subsector analysis, several guidelines merit following. Focus should be on the subsector map because it can identify sectoral weaknesses and spark discussion of issues confronting the sector. As the analysis leads progressively to a fuller understanding of production channels, it must be open to new leads as they appear. The scope should be broad; although this project is focused on small manufacturers, understanding the role of all production participants is necessary. The work should revolve around a core of subsectors; the narrower the task, the easier to grasp the different channels in a subsector, their weak points, and opportunities for improvement.

Subsector analysis, in part an exercise in information gathering, leads to conclusions and implications about where and how to improve a subsector's performance. Information to collect includes:

. general characteristics: raw materials, transportation prices, and financial markets

. structure: degree of vertical integration

. performance: employment, income distribution, production and transaction costs; inventory control, financing, and management

. historical development: to clarify present forces at work

. expected patterns of change: in structure and performance

The overall aim is to identify opportunities for improved performance. Subsector analysis, in a straightforward and logical way, specifies which interventions will lead to a better performance among the firms in a given sector.

The central difference between the management and subsector approaches, then, is to whom the analysis is addressed. Subsector work, admittedly policy oriented, is geared towards those who set the rules and authorize projects. Management work is , of course, shop-oriented.

For this project, neither approach alone will suffice. The need for the management approach is self-evident. The subsector work will complement the management focus by enabling project staff to view individual firms as part of a larger production system, highlighting some crucial issues in small scale enterprise development, and placing internal problems in a wider perspective- which are most urgent and which have an external component. Policy benefits, moreover, are a unique contribution of the subsector framework: project staff, with a detailed knowledge of several subsectors, can submit to policymakers recommendations on where and how to relax constraints and to offer incentives to firms within the subsectors.

CRS' Tunisian project operates with a synthesis of the two approaches. CRS' initial sectoral research revealed that the two approaches are similar over a range of issues in problem-solving for individual firms. The problems encountered during site visits to target firms, problems indicative of those to be addressed in the project, were management challenges that quickly gained an external dimension (ie, problems with raw materials, technology, labor, and demand).

This integrated approach is not just an academic nicety, but rather a reflection of one of this project's main assumptions: that internal management problems can be profitably viewed in a larger context and that small enterprise development needs to address external policy considerations. The management-subsector synthesis, in turn, defines project objectives, determines benefits, and frames the content and style of the project work.

Even a glance at the above approach and objectives reveals the parallel between this project's intent and the four pillars of USAID's development strategy: private sector development, institution building, policy dialogue, and research/technology transfer. There is no step or stage of this project that is not right with the private sector. The sure and constant collaboration will prepare it to serve as a catalyst to expand the range and efficacy of private assistance to small businesses. The subsector approach will yield a mass of information on needed policy changes for small businesses. Finally, the transfer of modern management methods to Moroccan small businesses and the transfer of entrepreneurial habits to their owners is, certainly, a technology shared.

D. Project Implementation

CRS proposes to select and to train ten university graduates and to assign them as management consultants. These consultants will not only offer free advice to participating companies, they will also assist businesses in acquiring loans (if the firm has a clear need for borrowed capital) and will call in outside expertise to handle problems beyond their ability. The project will foster competition among the firms and the consultants, efficient management within the firms, and co-operation between small businessmen and small business consultants.

Month One

CRS, MENA consultant Dr. Steven Davies, recruit for the positions of Chef de Projet and Assistant Chef de Projet. The ideal candidate for the first is a

Moroccan businessman with broad managerial experience, strong organizational skills, an excellent grasp of the Moroccan economy, and an appreciation for the viability of small businesses. The Chef de Projet will be responsible to CRS/Morocco. The Assistant Chef de Projet will have, in addition to organizational skills, a degree in accounting.

The Chef de Projet, CRS, Dr. Steven Davies, will interview university graduates for the position of management consultant. The selection criteria will be academic and professional experience, enthusiasm for working with small businesses, and a willingness to market management services among prospective clients who are often skeptical of modern management practices. We want consultants willing to get their hands dirty and to work on-site with their clients. Based on the profile of the Tunisia project consultants, we expect the Moroccan candidates to have a Master's degree (typically in management), some work experience with small businesses (either through summer internships or a few years work after leaving school), and to be in their late twenties. The job announcement will be placed in newspapers and business reviews, stressing the affiliation with ODI. Project staff will conduct first and second round interviews, the latter using the case-study method to assess the candidates' analytical and problem-solving skills. In the end, they will select ten candidates.

The Chef de Projet, in collaboration with Dr. Steven Davies, the ODI representative, and Mr. Noerrdine Moalla, the Chef de Projet for the Tunisia project, will (1) select the several sub-sectors from which the participating firms will be chosen, and (2) develop the curriculum for the training program. Mr. Moalla's contribution on the last point will be particularly valuable as he will have had nine months of experience with the Tunisia project before this one begins.

The ideal image of the subsectors to be chosen would be those which expand continuously in export industries, using indigenous capabilities, and are open to technology transfer. The subsectors, moreover, would be growing, but still labor-intensive and capital-saving (particularly in terms of foreign exchange). The skills and capability level of labor, however, could still be upgraded as the sector evolved.

In practice, the subsectors will most likely share some, but not all, of the attributes of the ideal. Several important guidelines in picking the subsectors are:

. Growth prospects and productivity increase: the subsector would have a positive income elasticity, so that it would benefit from increased national income. Alternatively, growth can occur when subsectors reduce costs and decrease prices. Price elasticities will, of course, determine whether benefits accrue to producers or to consumers.

. employment generation and labor training: subsectors with labor-intensive production methods can generate considerable employment from a given growth. If a subsector is also competitive in acquisition of new machinery and in increased labor skills, it is a good candidate for promotion.

. progressiveness: targeted subsectors should be able to introduce new products, to increase the quality of existing products, and to do both at a small, labor-intensive level.

These priorities focus on growth in production and income because, ultimately, that is the project's goal - to increase the level of economic participation of 120 firms.

Months two through six

The ten selected candidates will undergo a concentrated five month training period, with heavy emphasis on the particular subsector in which each will be working. In order for the consultants to be effective analysts of their clients' needs, they must have a good grasp of the technical characteristics of the business, its normal and potential marketing channels and procedures, sources of credit and capital, and institutional and regulatory contexts. By focusing on individual subsectors, the training program will enable the consultants to become general diagnosticians for their specific sectoral clients.

Although the subsector focus might require the consultants to track down some informal, micro-enterprises, the project's 120 participating firms will all belong to the modern, formal sector. While CRS has no difficulty with a non-registered firm participating in the project (that is, after it has become registered), we do make a distinction over size. Given that this is a management project, and management implies a level of sophistication, micro-enterprises are too loosely and too arbitrarily structured to profit from the consultancy services this project offers. One of the primary project goals, moreover, is to invigorate the private sector. Micro-enterprises simply have too many internal constraints to growth. The promotion of micro-enterprises normally does not lead to an expansion of individual firms into larger, modern firms, but usually results in the proliferation of identical, very small firms. That would not be the intent of this project.

The subsector training program will be an inter-active learning process between the industries and the consultants - the consultants learning the aspects of the industries while also making contacts and preliminary judegements on growth potential. Learning the most important and obvious aspects first, the consultants can let the more academic aspects follow as needed.

This five month period will actually be a simultaneous effort to learn how to be a consultant, to master the workings of a particular subsector, and to assemble a portfolio of participating firms. The subsector approach to this work is vital. For the Tunisia project, Dr. Steven Davies has designed a model for the project's start-up period, integrating classroom learning, subsector field experience, and participant selection. This model, described below, will be incorporated into the Moroccan project.

Phase I: Identifying the Subsector: This four week session will have the consultants create the subsector map, to identify participants, linkages, steps, and vertical integration. The first two weeks will be devoted to classroom training (style and content of the consultnats' work, use of sectoral data, case study methodology, analyzing a small business and its problems). The training for the first period will also include role playing to accustom the consultants to interviewing and to prepare them for a variety of reactions from businessmen. In the second two weeks, the consultants will begin interviews and research on the subsector map. Throughout the subsector research period, interviews will be geared towards three groups: (1) support institutions: lawyers, suppliers, exporters, and other consultants; (2) production-distribution participants other than target firms: retailers, importers, and wholesalers; and (3) target firms: possible project participants. A reasonable breakdown of the time spent interviewing would allocate 10% of interviews for the first group, 30% for the second, and 60% to target firms. The consultants will be continually interviewing towards Phase Three - final identification of participants. By the end of the first two weeks of subsector work, however, the consultants should be able to identify the production-distribution channels, write up a first report on different firms' problems, and collect six possible firms for the project.

The next six weeks will cover Phase Two: Understanding the Environment, Rules, and Information Flow . The aim of this phase is to clarify the larger setting in which the individual firms operate. The first two weeks will encompass additional classroom training on the various institutional relationships affecting small businesses: fiscal, administrative, banking, and legal. During the next four weeks, the consultants will interview support institutions, continue small business interviews (identifying six more candidates for the project), locate technical consultants for the subsectors, and report on the subsector environment - sources of external constraints and support.

The last segment is Phase Three: Comparative Horizontal Analysis . The consultants will examine firms' internal structure, conduct, and sources of problems. After looking at firms individually, they will compare them across different sizes and production paths, observing structural differences(horizontal analysis). As in the other phases, the first two weeks will involve classroom training, this time on personnel management, a brief review of accounting, procedures, and a second look at small business management style and problems. During the next six weeks, the consultants will line up 120 participating firms, begin to identify the problems within them, and write up the initial subsector report. During the last weeks, particularly, the consultants will be continually clarifying their picture of the subsector through interviews. This process will, in the end, result in the accumulation of a subsector portfolio and a report on the problems facing the several subsectors.

Learning about the subsector and searching for participating firms cannot occur in a discrete, sequential fashion;

the two cannot be divorced. The above model, therefore, integrates training, participant selection, and subsector understanding. We believe that instead of a week-by-week "things to do", the preferable approach is to map out in advance the staging of the preparation period, and most importantly, to specify what the consultants should know by when. This integrated approach has several advantages in:

. easing pressure on the instructors and the consultants by splitting up the classroom sessions

. allowing sufficient time to select firms

. increasing the consultants' interest: classroom and field experience will each supplement the other

. giving the consultants an "in" with firms; merely asking questions is less offensive than offering immediate advice

. providing the consultants with a complete picture of the workings of the subsector

The time spent filling a subsector portfolio is really time spent "marketing" the project among potential candidates. This work will involve (1) convincing interested owners of efficient management's value in raising profits and managing money, and (2) explaining the bonus fund. The interest of the project is to select participant firms from as wide a group as possible, focusing solely on those with the greatest need for management assistance and the least means to pay for it. The consultants must ensure that as many possible candidates are evaluated before the final selection. All firms meeting the project's eligibility criteria should have an equal chance to participate. The human aspect, moreover, is crucial in establishing rapport and judging a businessman's willingness to participate and capacity to take risks. The marketing period is designed to be labor-intensive: knocking on doors.

In addition to intensive door-to-door soliciting, the marketing period will devote particular attention the BCP's loan portfolio as a source of participating firms. The project could enlist both problem firms, those that have demonstrated growth orientation in applying for a loan but are encountering difficulties with repayment schedules, and new loan applicants. The underlying aim would be to improve existing clients and and to offer better future clients through the project's management extension services. This additional method of attracting participant firms will use the credit problem to get at the management problem.

The entire selection process will guided by various eligibility criteria concerning the portfolio composition and the style of participating firms. The portfolio selection has two main dimensions. First, participating firms should be distributed throughout the subsectors. Consultants should select from the widest possible candidate pool. This means that no firm in our target group is a priori included or excluded. Our commitment to impartiality in the selection process touches upon the issue of a women in development project component. CRS, without a doubt, will do nothing to exclude women from the project, either as consultants or as owners of participating firms. The project will consider job applicants and owners of candidate firms on merit alone, regardless of sex. Second, the portfolio will reflect two management structure categories.

Managers typically handle the following functions: input procurement, production management, marketing, personnel, finance and accounting, and external relations. These activities are all in direct contrast to production labor. The complexity of each activity, moreover, varies with the size and nature of the firm. The different combinations of such activities define management categories.

In the first category, Producer-Manager, the owner spends a substantial amount of time engaged just in production labor. Management functions are simple, some non-existent. In the second category, Participating Manager, owners are no longer engaged in production activity themselves, but are solely responsible for management functions. The owner is often the only worker involved in input procurement, plant supervision, and marketing. The consultants will attempt to divide their portfolios equally between the two categories.

The second eligibility criteria concerns the entrepreneurial traits of the owner/manager. Beyond demonstrating a willingness to co-operate and to collaborate, the ideal candidate for this project would be the original owner of the firm, a self-made man, who has built up his enterprise from a small capital base which he accumulated, most likely, from years spent in production labor. A means assessment test is important. We want only those firms that cannot afford management consultancy services without undergoing serious hardship. CRS abides by its policy of working only with the underprivileged. In this project, we do not seek firms that channel assets into the personal fortune of the owner, but rather those that re-invest continually. Above all, we look for firms in the process of growth and change.

The selection process will be the most difficult part of the project. It is also the most important. Obvious hurdles include:

- a long tradition of secrecy over real profits
- ignorance of modern management practices
- obsession with credit as a panacea
- reluctance to admit that mis-management is a problem
- hesitancy to take advice from college graduates with little real experience

. lack of entrepreneurial habits, particularly risk-taking and optimism about the future

In frank recognition of the impending challenges, the selection process has been carefully tailored to ensure that within the time envisioned, the consultants can enlist just 120 firms with the requisite hustle and drive which make them ideal candidates for this project. Aspects favoring on-time and satisfactory completion of the marketing period include:

. a large selection pool (casablanca and Marrakech) for a relatively small number of firms (120)

. the integrated training/marketing period will allow the consultants to interview a range of possible participant firms without making any project commitment

. the counterparts will provide leads on candidate firms

Months seven through thirty-six

During this period, each consultant will lead his client firms to better performances. The consultants will engage in a variety of activities: establishing and maintaining a working relationship with the client firms over the life of the project, teaching the client firms general management methods, keeping permanent files on each firm, and writing occasional reports to be used for policy dialogue. Most of the time the consultants will be with the firms; the remainder will be spent with relevant support institutions or in report writing. In addition, one day every two months, the consultants will assemble for a follow-up discussion with the Chef de Projet.

The consultants should be as active as possible in the businesses they consult because the firm's problems must be determined from internal procedures and external relations, both informal. Firm owners, moreover, will learn most dramatically from actions taken on their behalf than from empty recommendations. The consultants will be part advisor, part "agent" for the firms. Working with the owners to solve problems, the consultants must be supportive, listen well, guide their clients, and sometimes, take the initiative in problem-solving. In fulfilling their obviously delicate role, the consultants should avoid two extremes: either merely spouting advice or allowing the owner to take a back seat in improving his firm.

The consultants will no doubt advise the small business owners that they seek loans or contract additional, more specialized consultancy services (eg., marketing, production, quality control). In order to keep this project from becoming one in which the consultants simply tell the businessmen they have to spend more money, the project will guide the businessmen through the loan procedures and allocate bonuses to the most dynamic firms. This should demonstrate our confidence in the small businessmen themselves and in management advice as a valid way to help them. In practice, the project will not only advise businessmen what to do, but will also help shoulder the burden of the added cost entailed in following the consultants' advice.

The loan assistance process is straightforward - introducing small businessmen to available sources of credit that they might not have known about, refining loan applications, and walking them throught the loan process. This would be undertaken ideally in concert with a BCP representative, to ensure the participating firms accelerated and simplified access to credit.

The bonus fund is a reward/incentive system to foster risk-taking. The Chef de Projet and visiting project specialists (Dr. Steven Davies and the Tunisia Chef de Projet) will grant in-kind bonuses to the firms and the consultants.

In developing a formula to evaluate the performance of participating companies, the best approach is not to use a cumbersome mathematical equation applied equally to all firms, but rather to measure the performance of individual firms around a core of goals. The consultants and the owners, together, will set goals for the firm. The firms will then be judged by the difficulty of goals set and the owner's willingness to take risks to achieve them.

In practice, the sequence would be as follows: the consultants and the owners map out goals for the firm over the life of the project and identify measurable indicators of progress towards the goals. Project management will assess the difficulty of each firm's stated goals. The consultants will compile a permanent record of discussions with the owners and progress towards the goals. Project management and specialists will award the bonuses during months seven, eighteen, and thirty-six. All bonuses will be in-kind awards: for example, subsidizing attendance at a small business seminar, purchase of a new piece of machinery, or contracting more specialized consultancy services.

The first bonus will reflect the firms' willingness to co-operate, to share information, to set objectives, and to work with the consultants. As all partiicipating firms will have met these criteria, the first bonus will be divided equally among all the firms and will serve as an incentive to keep them with the project. The second and third bonus periods will use the risk-taking criterion. In recognition that businesses may not be able to attain their stated goals because of external factors and perhaps not for lack of hard work and initiative, the project will reward the businessmen for taking a risk, whether or not it turns out profitable for him to have done so. The bonus fund shares the risk with the businessman. If he "loses", the bonus will help lessen the cost, Two guidelines are important here: (1) The consultants will advise risk-taking prudently. Given their knowledge of the subsector, the consultants will be able to judge which problems the firms can tackle and which goals can be met. In all cases, risks advocated should be sensible and reasonable so that if the firm loses, the loss is sustainable. (2) The individual owners have to put themselves on the line and be willing to take risks. This project seeks to instill entrepreneurial habits among small businessmen; risk-taking is an important one. This project is as much a challenge for businesses as it is a service for them. Just as there is no free lunch, there are no free consultancy services. Owners of client firms are not passive participants. Although the firms may not pay in cash for the consultancy services, they pay in the coin of time listening to the consultant, the willingness to disclose information to him, and the resolve to follow his advice and take a chance. This project is not a management dole for 120 companies, but an invitation to entrepreneurship.

The rules governing the supervision and the distribution of the bonus fund will be made, subject to USAID approval, by Dr. Steven Davies and the Chefs de Projet for Tunisia and Morocco. The system developed for Tunisia, however, allocates bonuses to all participating firms, with the best performing firm receiving the largest bonus and the bottom ranked firm receiving the smallest. As a rule, the top quarter of the firms share 40% of the bonus fund, the second quarter split 30%, the third quarter 20%, and the bottom quarter divide the remaining 10% of the fund.

The unconditional cash bonuses for the consultants in the Tunisia project will be allocated at the same time as the company bonuses. The Chef de Projet will set goals and measurable standards for the consultants; their progress in meeting these targets will be the criterion used in allocating their bonuses. Examples of such targets include: writing a subsector paper, assembling a portfolio of firms, establishing a file on each firm, maintaining rapport with clients, and setting realistic goals for the firms.

The company bonus fund will be used to persuade reluctant businessmen to open up their books to outside consultants and to take risks. The two bonus funds will, together, help to stimulate competition not only among the firms, but also among the consultants.

Month thirty-seven

During this month, final project evaluation will be conducted. Ideal project continuation would be the counterpart's commitment to extend the project's services.