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Final Report on Design Phase  
of Ecuadorean Graduate Management Program

Prepared by  
University of Houston  
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## I. Summary

This document provides a summary of the accomplishments, methodologies and recommendations of the feasibility studies conducted by the University of Houston for the Ecuadorean Graduate Management Program under a contract (contract #514-0016C-00-6134-00) with USAID. Work under this contract began in July 1985 and was completed in February 1986 with the submission of the seven feasibility studies to AID Quito and the Fundacion Privada Ecuatoriana. The studies were carried out by the University of Houston as the lead institution for a consortium of universities which also included Indiana University and Florida International University, with additional assistance from INCAE (Instituto Centroamericano de Administracion de Empresas). The studies which examined major issues including financial feasibility, economic impact, academic program, site possibilities and other critical issues concluded that the creation of a private Ecuadorean evaluation offering a graduate program in business administration was both feasible and important to the development of the Ecuadorean economy.

## II. Accomplishments and Methodologies

The principal accomplishments of the design phase of the EGMP was the completion of the six feasibility studies required by US AID REI #ROD/LAC-85-002. Those reports included studies of the financial system, possible sites, administrative structure, academic program, economic impact and an evaluation of other Ecuadorean institutions of higher education. In addition, at the request of the FPE and with the approval of AID/Quito, an evaluation was carried out on the possibility of the EGMP granting a U.S. degree. After completion of these studies, concern was expressed regarding the long-term financial viability of the EGMP. These concerns focused specifically on the creation of an endowment fund sufficient to cover the costs of the school, which would not be met by tuition, executive programs and other sources. At the request of AID/Quito a fundraising study was carried out to determine the feasibility and methodology of creating such a fund. The remainder of this section describes the results and methodologies of the studies carried out during the design phase of the project.

### Academic Program

The purpose of this study was to design a curriculum for the EGMP's masters program and develop a broad outline of external programs to be offered by the institute. The principal concerns in developing the academic program were to provide a program which was the equivalent of a U.S. MEd, and at the same time was adapted

to Ecuadorean needs. To accomplish these tasks, a study was conducted of the development of the U.S. MBA, and a comparative evaluation made of the teaching methodologies employed at different American Universities and their potential application in Ecuador. In addition, the curricula of three Latin American masters programs (INCAE, IESA and ESAN) were evaluated in terms of quality, methodologies and adaptation to their own local environments. Furthermore, the Ecuadorean business community was surveyed to identify specific needs in terms of the type of training for the masters program, and executive programs.

Based on the findings of these studies and surveys, the Academic Program team developed a fifteen month, full-time program consisting of five consecutive trimesters with four courses taught in each session for a total of twenty courses. Courses selected included standard offerings in accounting, finance, management and marketing as well as specialized courses in such areas as agribusiness, export marketing and environmental analysis. The fifteen month schedule was settled upon as a reasonable compromise between a two year program with a wide range of courses but high opportunity costs for students and a twelve month program with lower opportunity costs but lower quality. Methodologies in teaching are to be determined by course needs and, therefore, will include a mix of lectures and case work.

The executive program segment of the study recommended a mix of short (1-5 day) programs to address specific, and immediate

needs of the business community with longer term evening sessions to provide executive development training in the traditional disciplines.

### Administrative Study

The purpose of the Administrative Study was to provide a design for the management of the project, the internal management of the school and an initial plan for transition of the EGMP to a free standing private institute of graduate education. To develop these designs, the study team examined administrative structures for higher education in the U.S., the organizational network of INCAE as a model of private Latin American graduate education, and consulted representatives of the FPE and US AID for recommendations. Based on these studies and surveys, the study set out an administrative structure for project management which provided for direct management responsibility to be vested in the Dean of the College of Business Administration, University of Houston, the Chief of Party and the Principal Investigator. A consultative group derived from administrators of consortium members was set up to advise the Dean. In addition, networks were designed for direct consultation between the Chief of Party, the FPE and AID/Quito.

In terms of internal administration the Chief of Party is to be assisted by an Administrative Director and a Director of Financial Affairs, along with the support of four full-time faculty members. The study also outlines a gradual process of

transition to Ecuadorean control, with the appointment of an Ecuadorean rector who will gradually assume administrative responsibilities with the school emerging as a fully Ecuadorean institution at the end of five years.

The study also provides a preliminary implementation schedule for year one, which established major goals in such areas as site, and curriculum development, along with a breakout of the principal tasks to be accomplished in reaching these goals.

#### Site Selection Study

The initial purpose of the site selection study was to evaluate temporary sites for the school, determine equipment and furniture needs, as well as provide cost estimates in all these areas. With the assistance of an Ecuadorean architect available office space was surveyed and 3 sites selected for closer evaluation based on a series of criteria including space needs for offices and classrooms, security, accessibility parking and cost. The study concluded that 600 square meters was a minimum and 1200 square meters the maximum required. Lists were also developed for furniture, equipment, a computer system and library, with needs estimates based on the experience of INCAE. Cost estimates were made for site preparation and acquisitions of equipment, and furniture based on surveys of U.S. and Ecuadorean suppliers. A final cost estimate of \$600,000 was developed for site expenses.

Subsequent to completion of the study, the FPE committed itself to securing a permanent site and the outer shell of a

building as a facility for the school. Therefore, a new criterion for the temporary site is to keep conversion and rental costs to a minimum so that funds earlier allocated for the temporary site can be devoted to completion of the permanent facility interior.

#### Financial Plan

The Financial Plan provided an evaluation of the financial feasibility of the project both in its first five years under AID funding and in the second five years as a self funded Ecuadorean institution. For this purpose, cost and revenue estimates were developed for a ten year time frame. Principal cost items evaluated included personnel, training, site and operating expenses. Revenue items included tuition, fundraising executive programs and an endowment. Information for estimates of costs and revenues were drawn from a number of sources including the results of the site study, cost and revenue experiences of other Latin American graduate institutions, local cost data secured in Ecuador, reports on the performance of university endowment funds in the U.S., AACSB surveys of faculty salaries, AID regulations on allowances and training costs, and surveys of potential purveyors of services in the US. Projections for the 10 year period also included a 5% annual inflator.

The study concluded that the total costs for years 1-5 were \$10.8 million, and \$4.6 million years 6-10. Costs in years 2-5 were to be covered by an AID grant and contributions from the FPE. Years 6-10 were to be covered by income from tuition, executive

programs, fund raising and an endowment fund. The study concluded that the cost and revenue projections for years 1-5 were manageable in terms of AID's commitment and expected revenues. The major conclusion concerning the second five years was the initial role of the endowment fund in providing nearly 60% of total revenues during this period. As a result, a separate fund raising study was authorized to determine the feasibility of raising the necessary endowment of \$2.5 million during the first five years of the project. The results of that study are discussed below.

#### Economic Feasibility

The economic feasibility study examined the relationship between education and economic development and provided a cost benefit analysis of the proposed school in Ecuador. Data for the study was gathered through a survey of the literature on education and development, interviews and surveys conducted in Ecuador, and data provided by the Central Bank and other sources. For the cost benefit analysis a standard return on investment formula was used. The principal conclusions of the study were:

1. Educational projects provided a greater return in terms of economic development than do physical infrastructure investments.
2. The return on investment to students in the EGMP would be in excess of 50%
3. The social return in investment would be 20% which significantly exceeds the World Bank standard of 12%.

## Ecuadorean Institutions Study

The purpose of this study was to assess the likely response of other Ecuadorean institutions of higher education to the new school and to suggest a strategy for institutionalizing the school's relationships with Ecuadorean universities. The study was carried out through an extensive series of interviews with key figures in universities and in the private and public sector. It also involved a careful review of the 1982 Ecuadorean Education Law. The study concluded that although other educational institutions were not openly hostile to the concept of the new school and might be willing to work with it, this attitude could change significantly if it appeared that scarce state resources were being devoted to it, at the expense of existing universities. Furthermore the study pointed out the numerous financial and political problems which would result if the school were created as a part of an existing institution. It was recommended, therefore, that the school be established as a private, unaffiliated institution. However, the possibility was raised of creating convenios or cooperative agreements with one or more Ecuadorean universities. Since the granting of a legally recognized degree requires that its institution be a part of an existing school, the institution will function, at least initially, with a degree which does not have formal recognition in Ecuador. However, because all students will have a recognized undergraduate degree, this was not perceived as a major problem.

### U.S. Degree Study

Although not required by the AID/REI for this project, this study was undertaken following the strong interest expressed by members of the FPE in the possibility of granting a U.S. degree. Since FIU was the only member institution of the consortium which could legally grant a degree, the study focused on its degree requirements and how their application to the EGMP would affect its development. The study examined degree standards in four areas: admissions, curriculum, faculty and FIU coordination. The advantages of a U.S. degree were lower start-up costs and time, and the prestige conveyed by a U.S. degree. The disadvantages however far outweighed these positive aspects. Because of degree requirements, the curriculum would not be adaptable to Ecuadorean conditions, admissions standards would be inappropriate, and costs per student would increase by \$6,000. Therefore the study recommended appoint a U.S. degree.

### Fundraising Study

Like the U.S. degree study, this study was prompted by developments during the design phase, as described under the Financial Plan Study. The purpose of this report was to evaluate the feasibility of raising a \$2.5 million endowment in 5 years and to design a preliminary fundraising plan for the FPE. To conduct the study Mr. Manuel Ortiz, who developed INCAE's highly successful fundraising plan, was hired as consultant. The study included a survey of Ecuadorean and multinational companies,

interviews with Ecuadorean business leaders and extensive discussions with the FPE. The study established the feasibility of raising the funds and proposed a strategy which targeted 3 groups: Ecuadorean firms, MNC's and international foundations. It also recommended the hiring of fundraising experts in Ecuador and the U.S. to assist the foundation.

### III. Recommendations - Findings

Based on the studies carried out under the design phase of the EGMP project, the study team recommended the establishment of the EGMP. It is to be a small, high-quality masters program of 15 months duration, with a U.S. equivalent curriculum adapted to Ecuadorean needs. Administration of the project will be carried out by the University of Houston, with assistance from the FPE and AID/Quito. The project will require a five year implementation phase with a \$10.8 million grant from AID.

Several issues developed in the design phase require special attention in the implementation stage. One is the continued refinement of the curriculum to insure its compatability with the needs of the Ecuadorean economy. The second is the fundraising plan which must be successfully carried out if the school is to remain financially viable when AID assistance ends. Third is the development of a specific plan and schedule for transition to Ecuadorean control over 5 years.

In August 1986 AID/Quito and the FPE signed a collaborative assistance agreement to implement the project. That same month, US AID and the University of Houston signed a letter of contract to initiate work on the EGMP.