Overcoming the Challenges of Cooperation. The Case of Joint Upgrading in Guadalajara's Apparel Industry
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Foreword

This paper examines local efforts to facilitate interactive learning and knowledge sharing among small- and medium-sized apparel manufacturers in Guadalajara, Mexico. It focuses on a government-sponsored training program that gets design-oriented and technologically-advanced producers (most of which are of medium size) to team up with their less experienced local counterparts. Under the close supervision of skilled mentor firms, smaller-sized and barebones manufacturers from Guadalajara's historic apparel cluster are experimenting with higher-valued added processes, like product design, marketing and full-package production. In turn, they are able to draw on these experiences and mentoring networks to better access and compete in more design-oriented and quality-conscious niche markets in Mexico and the United States. In this study, the author examines the reasons why a subset of more sophisticated manufacturers from Guadalajara are choosing to engage with and invest in training their less experienced local counterparts. Close attention is paid to the innovative planning practices of and adaptive problem-solving techniques used by program administrators as they attempt to secure a commitment to mentoring from local firms, help those active in mentoring overcome the real challenges and constraints of cooperation and sustain joint upgrading efforts by helping participants realize the larger developmental value of this form of dynamic collective action.

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The Challenges of Cooperation

What leads firms to embrace cooperation and joint consultation as a preferred method for upgrading? What are the main challenges to sustaining and scaling up collaborative forms of upgrading? How can institutional actors help facilitate, support and guide this process of social engagement and community investment?

This paper answers these questions by looking closely at the recent experiences of small- and medium-sized apparel makers in Guadalajara, Mexico's second largest city and the state capital of Jalisco. Since the mid-1990s, a growing number of firms from the city's historic apparel cluster have begun experimenting with interactive learning and joint consultation. Through their participation in a six-month training program, called Agrupamiento Empresarial (AGREM), small and medium apparel makers from the region are learning how to work closely together, how to identify and resolve shared bottlenecks and how to collaborate in ways that enable them—as a group—to better differentiate themselves from firms in other regions and other parts of the world that compete solely on the basis of "cheap" labor and low-cost inputs.

Initially, the AGREM program facilitates joint upgrading through a mentoring process, whereby teams of design-oriented and technologically-advanced garment producers (most medium sized) help to "pull up" and train their less experienced local counterparts. Under the structured guidance of skilled mentors, smaller sized and barebones apparel assemblers from the region are learning how to integrate forward and backwards into value adding activities such as design, marketing and "complete" or "full-package" production. Once trained, participating firms form reciprocal alliances and lasting support networks that build on and reinforce their initial mentoring ties and that ensure on-going product, process and functional upgrading in the industry.[1]

Existing studies of dynamic, inter-firm cooperation in other craft-based industries in Guadalajara (namely shoemaking) have attributed the widening use of dynamic learning exchanges and collective upgrading arrangements to Mexico's entry into GATT in 1985 and, more specifically, the subsequent rise in low-priced, Asian-made imports that came with a reduction in tariff barriers (Rabellotti, 1995 and 1999; Woodruff, 1998). Local analysts often take their cues from these earlier studies, arguing that similar cooperative forms have been recently created by garment producers to help them better deal with the pressures of NAFTA and Mexico's growing commitment to trade liberalization.

This paper takes issue with this claim. First, it does not allow us to account for *continued variation in firm response within the region*, despite the fact that firms face the same macroeconomic environment and national regulatory struc-

[1] Product upgrading entails "moving into more sophisticated product lines." Functional upgrading is where firms "acquire new functions in the chain such as design and marketing;" and process upgrading enables firms to transform "inputs into outputs more efficiently by reorganizing the production system or introducing superior technology" (Humphrey and Schmitz, 2000).

ture. As will be seen below, a growing number of sophisticated garment firms from Guadalajara have chosen to participate in the AGREM and engage with and help out their smaller-sized counterparts. Others, however, have chosen to pull away and distance themselves from less experienced members of the local cluster. The simultaneous presence of multiple local responses—engaging, disengaging and, in some cases, withdrawing—suggests that Guadalajaran garment manufacturers, rather than reacting homogeneously or in unison, differ on how they interpret the changing national and international economic landscapes and the choices available to them for increasing their chances of long-term gain and survival.

A rise in garment imports to the region since the late 1980s has undoubtedly put added pressure on traditional sector manufacturers in Guadalajara. Periods of intensified cross-border smuggling[2] and, more recently, domestic competition from new apparel assembly sites in northern and western Mexico had the same effect. Still, how local firms and groups of firms understand and experience these diverse pressures and how and when they choose to act remain puzzles under the behavioral response triggered by liberalization. Causal models that "logically deduce" or infer individual behavior from shared macroeconomic events and shifts in nationwide trade regulations are inadequate for identifying the *mediating factors* and *complex processes* that lead firms to the *core relationships* that they use to deal with and overcome daily production and marketing challenges. More importantly, they fail to present an accurate account of the *real challenges* to developing and sustaining dynamic forms of inter-firm exchange or notice the iterative processes of *sense-making* (see Schön, 1993 and Weick, 1995) and adaptive *problem-solving* through which potential struggles and localized "sticking points" get identified and resolved over time. As a result, they are poor guides for policy.

The Case of Apparel Production in Guadalajara

This paper presents three main challenges to building support for local cooperation in Guadalajara. The first challenge, which is outlined in the second section, reflects earlier social history and existing patterns of local engagement in the industry. In particular, it focuses on an entrenched *relational pattern* in which barebones assemblers and specialized subcontractors from the region are not only considered *subordinates* of, but are seen as intellectually and experientially *inferior to* brand name manufacturers. While discussions with both sophisticated and barebones manufacturers in Guadalajara reveal a strong desire to intensify their contractual exchanges, they admit feeling powerless and unprepared to do so. Brand name firms lack the experience and skills needed to translate serious concerns about product quality, durability and style into concrete suggestions and constructive guidance. Similarly, their contract manufacturers often lack the courage and experience to challenge their subordinate position within local and global supply chains.

[2] Cross border smuggling usually coincides with a recession or economic slowdown in the United States. According to recent industry experts, there has been a recent and dramatic rise in local sales of apparel contraband, due in part to retailer/importers' need to "dump" unwanted items, initially sold in the United States, in other regional markets.

A growing awareness of the rigidity of existing relational forms and a related *skills gap* has led to a lengthy search for possible solutions by leading firms from Guadalajara's apparel manufacturing association. In 1997, the association, in conjunction with the state government and a local university, took steps to study and replicate a joint consulting training program originally used in the state's shoe industry.

While a full history of the factors and processes that led to this institutional partnership and successful institutional "recycling" is beyond the scope of this paper, key details are presented to illustrate the challenges that AGREM program administrators faced as they sought to replicate the "shoe success." As will be seen in the third and fourth sections, the *challenges of supporting and sustaining local cooperation* relate not just to existing inter-firm and intra-group dynamics, but also to the ways potential and existing participants interpret the actions and motives of program promoters, administrators and evaluators. Though extremely helpful in getting private sector actors to recognize and overcome the constraints to cooperation, intervention by "outside" agencies, including the state government and manufacturers association, has created additional challenges related to an earlier lack of confidence in the public sector. These governance challenges are discussed in detail below as they relate to program start-up. So are the innovative solutions now being devised by program administrators to overcome these challenges, including a carefully orchestrated division of labor, cross-agency coordination and continuous consultation and scheduled "times-outs" for in-depth program review and reconsideration.

The final challenge of cooperation out lined in this paper relates to the issue of sustainability; specifically, at what point do cooperative relationships break down? What preventive steps can be taken to limit cases of disengagement? As will be seen, the main challenges of sustaining local cooperation are mitigated through a combination of strategies employed by front-line administrators during the course of the AGREM. The most notable of these are:*rule setting* (collectively defining (a) group expectations and setting limits); (b) *open critique* (giving all firms an opportunity to comment and share their points of view); (c) *institutionalized story telling* (allowing firms to develop shared or collective narratives); and (d) *small project planning and montoring* (creating a real group experience on which to build and reflect).It is through these steps that firms participating in the AGREM have learned to identify and resolve on-going tensions within the group and larger industry and come to realize the larger developmental value of this form of dynamic collective action, despite moments when the individual costs of cooperating seem high or are difficult to calculate.

The findings presented in this paper draw on semi-structured interviews with small- and medium-sized garment and shoe manufacturers and development practitioners from the state of Jalisco. In total, 80 interviews were completed with firm owners from Guadalajara's Metropolitan Zone. Firm selection was done, in part, through a snowball process, by which interviewees were asked to list or recommend other firm owners who might be willing to be interviewed. This allowed the mapping of existing production relationships and social ties, as well as the comparison and contrasting of individual perspectives about interactions. Additional interviewees were selected from AGREM participation lists and through the apparel association's formal registry. Approximately 100 interviews were completed with institutional representatives from the Secretariat of Economic Development and from university-based business extension programs and regional business associations (included in this figure are recorded observations made at key public events, industry trade shows, training sessions and state planning meetings).

Background and secondary materials on the city's economic and industrial history were also consulted. While many of the interviews and observations used for this paper were completed in early 2002, many of the findings presented here also reflect earlier work and analysis completed by the author during two research trips to Guadalajara in 1999 (two months) and 2000 (six months).[3]

[3] Funding for these earlier research trips was provided by the World Bank as part of a larger study of the decentralization of industrial promotion, and by the Inter-American Foundation's Doctoral Research Fellowship.

Brief History and Structural Overview of Guadalajara's Apparel Industry

Jalisco's contemporary apparel industry, like other traditional industries in the state (including footwear, furniture, jewelry and artisan goods) was established in the first two decades of the 20th century. To this day, it remains an urban-based industry; most of the state's apparel manufacturing facilities are concentrated in and around Guadalajara and surrounding four-county metropolitan zone (now home to more than six million residents). There are also dynamic pockets of specialized garment production, mostly in knitwear, in the Los Altos (or highland region of the state), particularly the towns of Zapotlanejo, Villa Hidalgo and San Miguel del Alto. Combined, garment manufacturers from these smaller, rural towns employ close to 15 percent of the state's apparel manufacturing workers. For this project and given the author's interest in contemporary joint consultation initiatives, this paper concentrates on the existing relationships between small- and medium-sized manufacturers located in and around Guadalajara.

Guadalajara's apparel industry took off in the 1960s with direct and indirect help from state and federal authorities. Between 1950 and 1970, the state and municipal government used federally-approved fiscal incentives and financing in order to attract and assist a core group of investors in traditional consumer goods industries, including apparel and shoes (Arias, 1983). Federal government development agencies and development banks also helped trigger additional rounds of growth in these consumer goods industries by heavily subsidizing investments in more capital-intensive sectors.[4] In turn, the rapid growth of heavy industry in Guadalajara increased local demand for industrial uniforms and work boots as owners of large-scale manufacturing operations tried to attract workers from rural parts of the state with offers of subsidized clothing, uniforms, housing and transportation. Combined, these efforts allowed Guadalajara's garment industry to quickly rebound from a period of economic stagnation at the end of World War II when the war's end led to a drop in U.S. demand for Mexican-made military and work uniforms, undergarments and casual clothing (Lailson, 1985).

The industry went through a period of severe economic crisis in the late 1980s, after Mexico's entry into the General Agreement on Tariffs and Trade (GATT) led to a growth in low-priced Asian-made imports. By 1993, national trade barriers were back in place to protect Mexican manufacturers from "dumped" Chinese-made consumer goods, including garments, shoes and plastic toys (Latin American Institute, 1998; Amsden, 2001). The benefit of this new round of protectionism, however, was not immediately felt as local firms faced a significant drop in domestic demand caused by Mexico's 1994-1995 peso and banking crises. From 1987 to 1996, a large share of Guadala-

[4] For a rich historical review of federal efforts to stimulate regional industrial development in Mexico, see Moreno and Ros, 1994.

jara's garment makers (according to industry experts as many as 30 percent of all locally-registered establishments) closed shop, shut down satellite operations or temporarily went "underground." Firms heavily dependent on bank credit were particularly vulnerable during this period.

By the mid-1990s, there was a resurgence in the city's garment industry as existing and new apparel investors took advantage of Mexico's devalued peso and sought access to NAFTA-generated sourcing channels in the United States and Canada. By 1998, there were close to 1300 garment and textile plants registered in Jalisco, an increase of more than 300 percent since 1988. Total employment in the industry grew from 5561 workers in 1993 to 26,926 in 1997.Most of this job growth was at new and existing manufacturing facilities located within Guadalajara's Metropolitan Zone.[5]

Between 1994 and 1998, Mexico increased its share of the U.S. retail apparel market by more than 75 percent, displacing China and moving into first place in total apparel imports to the United States (Bair and Gereffi, 1999). Still, despite the country's rapid integration into U.S. sourcing networks, the majority of garment makers from Guadalajara have continued to produce goods for Mexican-based buyers and retail establishments. This is due in part to the city's historic role as the commercial center for west-central Mexico and the fact that local retail, wholesale and subcontracting networks are well developed and have, until recently, offered local firms a relatively stable and profitable consumer market.

A recent survey of firms in Jalisco found that 45 percent of all orders from local garment makers go to in-state buyers; 25 percent go to buyers from the five surrounding states; 27 percent to buyers from other states in Mexico, and 3 percent of sales go directly to foreign buyers. It should be noted, however, that these figures may not accurately capture the extent to which goods made in Guadalajara reach customers in the United States and overseas. The purchase of goods from subcontractors and by locally-based buyers often gets recorded as a local order or sale even though these goods are destined for retail markets in the United States, Europe or South America. Today, apparel exports from Jalisco rank third after electronics and photographic goods. Their value has increased substantially in the past decade. According to industry experts, this is a better indication that garment firms in Guadalajara, while still relying heavily on the domestic and regional market, have managed to expand their reach in international markets.[6]

The Limits of Traditional Inter-Firm and Subcontracting Exchanges

To get a better profile of Guadalajara's apparel industry, resident firms were classified according to size and activity, including level of skill and relative ex-

[5] All statistics used in this section were compiled by Jalisco's Secretariat of Economic Development and are based on data gathered and analyzed by IMSS (Mexico's Institute of Social Security) and INEGI (Mexico's Census and Statistics Bureau). Apparel industry statistics were only available at the state level.

[6] In 2000, 49 percent of Jalisco's apparel exports were destined for the United States, 18 percent to Europe, 12 percent to both Canada and Latin America respectively, while the rest went to Asia and Africa.

pertise. There is a small group of *larger sized manufacturers* that have basic knowledge of design, pattern making, marketing, quality control and logistics. Some from this category are officially registered as medium sized. However, as they directly control a large share of the local workforce through their networks of local subcontractors, they are included in the large-sized firm category for the purposes of this study. As with smaller sized firms in the region, these firms tend to focus primarily on domestic sales. Many of them have their own retail establishments in Guadalajara and neighboring urban centers and also produce their own brand name items. Most of these larger sized firms rely on a core group of small and medium manufacturers from the region to fill their monthly production orders, while design, finishing and quality control activities usually remain in house. During peak seasons these firms add other local factories to their subcontracting or out-sourcing lists. Recently, a handful of full-package *maquiladoras* or export-processing plants with modern, well-equipped and large-scale facilities have joined their ranks. These export-assembly plants rarely contract out production to local subcontractors, in part because of strict contract stipulations set by U.S. buying agents and retailers. During economic downturns, these firms can actually displace local subcontractors as they take on domestic contract jobs in order to maintain full capacity.

The largest group, in terms of the total number of local establishments, are *micro and small* firms that employ less than 50 workers (see Table 2). Approximately 80 percent of the 1400 establishments in the state fall into this category. These micro and very small-sized enterprises typically focus on barebones or minimum production and produce or assemble unfinished items for other firms in the region.

A third group is made up of more *skilled small-* (50-100 employees) and *medium-sized* (100-250 employees) manufacturers that, depending on business cycles and economic conditions, alternate between producing and marketing their own brand name items and those of larger manufacturers. During peak season, many firms in this group also source out their production orders to small and micro operations in the region. As will be seen in the next section, these firms are an important player in Guadalajara's mentoring circles. A final category of small- and medium-sized firms are *brand name producers* that outsource all manufacturing, keeping most design, marketing and finishing tasks in house.

According to national industrial census data, in 1980, 57 percent of Mexico's garment workforce worked for firms dedicated to subcontracting and assembling for other nationally-based manufacturers (Hanson, 1996). This production arrangement took hold in Mexico's garment industry in the 1960s and coincided with the dispersion of production from Mexico City to other regional economic centers like Guadalajara, Monterrey, Tehuacan, Naucaplan and Aguascalientes. A recent survey of garment manufacturers in Jalisco shows that subcontracting and local outsourcing remain popular today. According to the results of a recent university survey, in the mid-1990s, close to 60 percent of Jalisco's apparel makers depended on some form of subcontracting to meet their production quotas (UNAM, 1997).

Interestingly though, despite the common practice of subcontracting and the substantial amount of time local firms spend interacting with each other under this form of contractual exchange, few local assemblers when surveyed in the mid-1990s considered these relationships to be a direct contribution to their own upgrading or learning process (UNAM, 1997). Rather, assistance from firms that outsource their production orders has traditionally been limited to the area of short-term credit and financing. Outsourcing firms often provide short-term, low-interest loans to their long-time assemblers and contract manufacturers. These firms also procure and purchase all raw materials thereby reducing the financial burden of their smaller-sized contract manufacturers. Only a small group of firms (most medium-sized establishments) have received technical training or advice from outsourcing firms.[7] An even smaller percentage of surveyed firms in Jalisco have acquired new equipment and machinery through these local sourcing ties.

These earlier survey findings match qualitative descriptions and narrative accounts of traditional sourcing arrangements collected since 1999 by the author. The experiences of one firm, *Textil y Confección,*[8] are representative of the kinds of exchanges smaller firms have with those outsourcing their production orders locally. Throughout the 1970s, 1980s and early 1990s, *Textil y Confección*, a small Guadalajara-based firm, produced men's workpants and school uniforms for the regional and national market under contract with larger manufacturers from the area. During this period the firm made several, quite unsuccessful, attempts to design and market its own brand name items. In general, however, the firm depended on outsourced orders from other local manufacturers. Under verbal contract, the firm's day-to-day and order-to-order routine stayed much the same. The firm's owner would receive a copy of the item to be produced from his client. Within a week he was expected to replicate the sample item in its entirety; send his copy, along with the original, back to his client for approval; work out the specifics of the delivery and payment schedule for that order; and, depending on its size and the season, complete the order within two to four weeks.

In the 1970s and 1980s, the stability of this relationship provided *Textil y Confección* with several important benefits. It provided the firm with an almost guaranteed source of orders and thus, stream of income. It also helped to protect the firm during economic shocks, as work and school uniform sales, even during crisis years, remained relatively stable. Second, it provided the firm with access to short-term working capital, something direct sales to local retailers and buying

[7] From the survey data, it is not immediately clear what kind of technical assistance or training was provided through these traditional exchanges. According to the author's discussions with local firms, it seems that most assistance was product specific and not necessarily "functional" or "process" oriented. Product upgrading allows firms to "upgrade by moving into more sophisticated product lines." Functional upgrading allows firms to "acquire new functions in the chain such as design and marketing"; and process upgrading entails "transforming inputs into outputs more efficiently by reorganizing the production system or introducing superior technology" (Humphrey and Schmitz, 2000)

[8] The real names of individual establishments and firm owners are not disclosed in order to honor requests for anonymity.

agents could not always guarantee.[9] As with many outsourcing arrangements, *Textil y Confección* received partial payment from its clients when an order was first placed. The firm would then receive the remaining balance within 2 to 3 days of completion and delivery of the order. In contrast, local retailers and buyers are typically given up to 45 days to reimburse their local suppliers.

What *Textil y Confección's* traditional subcontracting exchange failed to provide, however, was an adaptive, supportive environment for helping the firm experiment with and master higher-order activities such as design, marketing and quality control; or what Schmitz and Humphrey have termed "functional" upgrading. To quote the firm's owner, *era una relación de 'me maquilas exclusivamente y nada mas.' No compartian diseño ni cosas de calidad, ni nada.* Loosely translated as: "it was a relationship in which I was told I would only assemble goods for my client. There were no exchanges about product design or issues related to product quality" (Interview with author, Guadalajara, July 12, 2000). Narratives gathered from other apparel contract manufacturers in the region portray similar *hierarchical* forms. They also describe similar power relations, in which the authority to change the intensity and scope of these exchanges clearly remained in the hands of those "above."

For *Textil y Confección*, and other contract apparel manufacturers in Guadalajara, long-term relational stability and small firm interdependence has coexisted with a set of local routines and social norms that, at most times, restrict or constrain idealized goals of building on these relationships to foster greater cross firm learning and exchange. In recent years, an explosive growth in the number of local garment firms and the competitive pressures it has created for both brand name firms and their subcontractors has only reinforced local norms to remain distinct and disengaged. Open discussion and sharing among local firms, even those within traditional kinship circles, is considered too risky, increasing chances of "design thieving" and "client poaching" by newcomers and old colleagues alike.

The weekly routines of many contract manufacturers in Guadalajara, including those of *Textil y Confección* prior to 1999, reflect these deeply engrained and recently reinforced local customs and beliefs. For one, discussions with client firms are limited in scope and focus primarily on basic assembly procedures, delivery timetables and payment schedules, not higher-order activities, like product design, marketing and quality control. Intimate details of shop floor life, factory administration and management and logistics routines are not discussed either. This not only reflects restraint on the part of client firms, but a similar reticence on the part of many "subordinate" contract manufacturers to speak up about and make suggestions related to nontraditional subjects such as product durability, fit, style or marketability. Subcontractors fear their client firms will interpret such interjections as being too forceful and even a sign of disrespect. A second, related concern is that if they suspect the source of these suggestions comes from a supplier's earlier observation of or interaction with an-

[9] For a rich discussion of the importance of buyer-created financing arrangements among small firms in Northeast Brazil, see, Tendler and Amorim, 1996.

other client, client firms will begin to worry that their existing contractors will also circulate confidential information and reveal "prized secrets" about their own production practices and survival techniques. Although some contract manufacturers have expressed a strong desire to forge closer, more dynamic ties with their local buyers, they admit that they lack the courage, experience and know-how to put these goals into practice.

If subcontracting relationships (at least in their traditional form) have failed to automatically generate or evolve into more dynamic interactions, what alternative channels for upgrading are available to smaller, barebones manufacturers in the state? This question is particularly relevant in today's uncertain economic environment where basic norms of relational stability now appear to also be under threat. The recent North American economic slowdown and drop in consumer confidence in the United States has—somewhat unexpectedly—opened up alternative sourcing channels for brand name manufacturers producing for the domestic market. Former medium-sized *maquiladora* or export-assembly operations located in Jalisco's neighboring states (specifically in Aguascalientes and Guanajuato) are now vying for key positions in domestic-oriented apparel supply chains, especially those controlled by medium- and large-sized brand name manufacturers from Guadalajara. A growing number of brand name firms in Guadalajara, particularly those designing seasonal apparel for young women, are starting to incorporate these "outside" contract manufacturers into their primary sourcing networks. Through these relationships, brand name manufacturers hope to benefit directly from the experience of these assemblers in high-volume, low-cost production and sales and, more specifically, from their exposure to retail establishments, market intermediaries and input suppliers from the United States and Canada.

While it is too early to evaluate the long-term effects of these new sourcing arrangements on the competitive position of Guadalajara's larger brand name firms, it is clear from recent discussions with local firms that the growing use of former *maquiladoras* is displacing existing, smaller subcontractors. Loyalty considerations led some brand name manufacturers to initially help their smaller-sized and less skilled subcontractors find replacement clients. Still, few buyers—new or old—are really prepared to invest much time and energy into individual supplier training. This decision, in part, reflects real financial and resource constraints. In many cases though, local buyers and contract manufacturers also lack experience in supplier training and, as a result, do not have sufficient *skills and know-how* to translate serious concerns about product quality, durability and style into concrete suggestions and constructive guidance.

The AGREM Training Program: *Institutional Recycling and Diffusion*

Leading firms from the apparel manufacturers association in Guadalajara, in conjunction with the state government and a local university, are working together to devise possible solutions to these industry-specific challenges. Their core policy instrument is a six-month training program financed with state and federal funds and, partially, through the collection of user fees. Through this program, barebones apparel manufacturers partner with more skilled brand name manufacturers and high-volume assemblers from the region. Participating firms learn to work together to identify and resolve production and marketing bottlenecks. As part of their training in joint-consultation, participating firms learn to develop *mentoring circles or networks* (described in some detail in the fifth section). This initiative is part of a larger policy agenda designed by state development planners to provide greater resources and support to small businesses (firms employing less than 100 workers). Small firms now make up the largest share of manufacturing establishments in the state.[10]

In order to understand the developmental contribution of the AGREM, we must first look at the earlier use of this training program by firms in the state's shoe industry.

Shoe manufacturers in Jalisco now employ around 28,000 workers, in approximately 1500 registered establishments. Both the shoe and the garment industries continue to rank high nationally in terms of annual production and employment. As is the case of apparel, close to 90 percent of the state's shoe firms are small- and microenterprises (see Table 3). Most firms are located in Guadalajara's Metropolitan Zone. The state's shoe industry, like that of garments, has struggled with periodic floods of low-priced, Asian-made imports and greater economic uncertainty and instability since Mexico joined GATT in the mid-1980s.

[10] Other initiatives developed under this larger agenda include *JALTRADE*, an export support center that helps cooperatives of small- and microenterprises gain access to quality-conscious niche markets in the United States and Canada; *CEJALDI*, a multi-industry design center that opened in 1999 to connect smaller manufacturers with skilled product and graphic designers from the state and to enable smaller firms to realize the full design potential embodied in their existing machinery and equipment by grouping them to work collectively on product and packaging designs; *Camino de Vestido*, a week-long, promotional campaign scheduled during Guadalajara's biannual apparel trade show that takes prospective investors, manufacturers and suppliers to existing industrial complexes and small-firm clusters located outside of the Guadalajaran Metropolitan Zone. In addition to these formal programs and centers, the Secretariat offers financial assistance to groups of microenterprises wishing to participate in local trade shows and international trade missions. They also accept applications for funding from NGOs and business associations to cover the costs of business consulting services and industry-specific vocational training for smaller firms under the *CEPE* or "economic promotion" program. Finally, the agency administers low-interest loans to existing small businesses using money allocated to them through federal temporary employment and job-creation programs (*FOJAL* and *GEMICRO*). For a more detailed discussion of these initiatives, see Lowe (2000).

In the mid-1990s, leaders from the state's shoe manufacturers association began a systematic review of alternative models of firm upgrading. Between 1989 and 1995, the region's shoe association, in conjunction with two other regional shoe manufacturing associations in Mexico City and León, concentrated on lobbying activities and specifically, collecting sufficient evidence to prove "dumping" charges against Chinese shoe manufacturers and importers. Staffed with more than 20 researchers and administrative support staff, association representatives from the region gathered detailed information on the imports and local sales, observed customs officials at key ports of entry into the state and gathered comparative statistics on production and sourcing costs in Asia. With their eventual success in lobbying for greater protection and the subsequent resurrection of nationwide trade barriers in 1995 (temporarily approved in 1993 and with additional evidence, extended for an additional 10 years in 1995),[11] association staff were able to shift their attention to more direct and proactive means for improving the competitive position of local firms in national and international markets. After a lengthy review process, industry leaders decided to build on and modify an earlier joint consulting training program created by Mexico's National Development Bank in the late 1970s.

Agrupamiento Industrial, as the original training program was called, was chosen as an organizational template in the mid-1990s for three reasons. First, more than 200 Guadalajara shoe manufacturers had participated in this well-publicized, national development program between 1982 and 1989 (Orta, 1999). As a result, a significant share of local shoe manufacturers were already familiar with and aware of the programs core methodology and mission. Although officials from the National Development Bank terminated the program in 1989, many shoe firms from the state were still in contact with and sought business advice from the program's former trainers and consultants. Second, the majority of the region's former participants considered this earlier initiative a great success, especially for helping smaller resource-constrained firms.[12] Finally, former employees of the National Development Bank, including the regional director of the original program and some of his program design team, were available in the mid-1990s to work closely with association staff in order to modernize this older, but well-received, joint upgrading initiative.

In 1996, the Jalisco shoe association contacted development planners from the state government after Mexico's National Development Bank turned down their request for renewed financial assistance. Planners from Jalisco's Secretariat of Economic Development, many of whom were familiar with the debates surrounding economic development planning and the extensive literature on

[11] Negotiations between Mexico and China over China's recent entry into the World Trade Organization resulted in a further extension of these tariff barriers through 2008. While it is likely that tariffs on Chinese made shoes will eventually be lowered, there is still considerable room for negotiation on the part of local business leaders.

[12] Under the guidance of program administrators, smaller shoe manufacturers had worked together to create, manage and maintain a regionwide credit union. Program administrators and financial consultants also facilitated the formation of smaller, joint buying "clubs" used to lower materials and insurance costs through group discounts, the result of which was a freeing up of much needed working capital.

industrial districts, saw this as an opportunity for the Secretariat to better access and give support to the state's historic, craft-based sectors. The agency's director (who was a small business owner and former president of CAREINTRA, a multisectoral, regional association representing small businesses in the state) considered this a timely policy model for targeting marginalized segments of the local business constituency. The Secretariat therefore offered to finance two-thirds of the program's start-up costs, *conditional* on state planners having *open access* to internal program documents, training session minutes and reviews and firm profiles and evaluations. State planners and university extension agents affiliated with the Secretariat also requested permission from industry leaders to attend and observe group training sessions and ceremonial events. The first *Agrupamiento Empresarial* (AGREM) training session began in 1997 with 22 shoe manufacturers from the state.

The main goal of this six-month training program is to teach participating firm owners to work collaboratively in order to identify and jointly solve common constraints and bottlenecks. To date, ap proximately 100 small- and medium-sized shoe makers from Guadalajara have participated in four separate sessions. Each six-month AGREM is divided into three interconnected phases. The first phase, referred to as the *diplo mado* or certificate course, lasts ap proximately three months. During this phase, participating business owners re ceive basic classroom training and ex pert advice from local business consult ants and technical experts on a series of subjects ranging from administration and industrial relations to marketing and product design. Program administrators use this initial period to learn more about each participant and gauge their prior exposure to and awareness of specific processes and techniques. In the case of garments (as will be discussed in more detail below) the *diplomado* phase provided participating firms with a neutral, safe zone for working through initial, group-related tensions and lower ing the chances of later flare-ups or rivalries. It also helped program promoters target and attract firms that were initially less enthusiastic about the prospect of working closely with local manufacturing colleagues.

Phases two and three of the training program are designed to be more interactive. During the second phase of the AGREM, the group visits the factories of participating firms. Using analytical skills developed during the *diplomado* phase, group participants are encouraged to evaluate and critique the production, marketing and organizational practices of their training colleagues, as well as make suggestions on how to improve specific techniques and processes. The process is somewhat akin to an art critique and is used to both challenge and give support to each participating firm owner. During this phase, the group also visits larger, "modern" manufacturing operations in the state (that is, the "model" firms mentioned earlier in this paper). By observing first hand the practices of other firms, participating firms not only gain exposure to alternative models of production, but more importantly begin to identify some of the weaknesses and constraints that they share with their larger-sized colleagues. During phase three, these shared experiences become the basis for strategizing about concrete forms of collective or group action. Assisting in this process are undergraduate interns from a handful of accredited universities in the state (some of them are later hired by participating firms as permanent advisors and employees). It is during the final phase of the AGREM process that formal mentoring ties are established and strengthened.

Institutional Differences and their Impact on Program Diffusion

In the final months of 1997, leaders from Guadalajara's garment association took steps to develop and promote their own variant of the *Agrupamiento Empresarial* program. Garment industry leaders had learned about the shoe AGREM during coordinated meetings in which representatives from both industries fought for greater federal protections against unfair dumping by trading partners and illegal smuggling practices. Furthermore, leaders from both associations were active members of the Jalisco Federation of Business Associations (CCIJ) and had jointly participated in a year-long CCIJ study in which existing local business services and training programs were compared and discussed. Still, despite local knowledge of this initiative, transferring the AGREM model from shoes to garments has not been a simple, seamless process. One limiting factor is a lack of collective memory of or first-hand exposure to the original 1980's *Agrupamiento Industrial* program on which to build or draw. Also problematic is the garment association's continuing struggle with institutional legitimacy and a related shortage of qualified staff for overseeing and guiding program diffusion, development and administration.[13] Such concerns and struggles, as we saw above, do not plague the state's shoe industry association.

While lead firms from the local garment industry showed immediate interest and recognized the potential benefits of joint consulting for local manufacturers, these existing institutional and organizational constraints limited the extent to which association leaders were able to formally affiliate themselves with the program, either as promoters, codesigners, evaluators or initial participants. These factors have also made it much harder for those currently active in the program's diffusion process to initially secure broad-based support among nonelite garment firms in the region.

At the same time, however, these constraining factors opened up new opportunities for outside actors (primarily development planners from Jalisco's Secretariat of Economic Development and a group of university extension agents from ITESO, the state's largest Jesuit university) to play a more active role in program administration, design and evaluation. In filling this organizational gap, state planners and extension agents are managing to improve their own skills in program administration and evaluation. They are also developing adaptive implementation techniques and innovative promotional strategies for extending the AGREM model to other, equally challenged, craft-based industries and business associations in the state.

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[13] The garment association (in contrast to the state's shoe association) is not an independent organization but rather a regional delegation of a larger national network. Jalisco's delegation, like its sister delegations in other regions of Mexico, has few independent channels for generating income. Instead it relies on the national federation to allocate and audit its funds. The national federation has limited the funds going to Jalisco's delegation in the past fifteen years as a result of corrupt local management practices in the 1980s.

The Secretariat was especially keen to develop its administration and evaluation skills in the area of small firm assistance. As were university administrators from ITESO, who in 1995 created Metaprograma, a university-based business extension program dedicated to supporting micro and small businesses in the state. Political changes at the state level in the mid-1990s brought new leadership to the state's key development agencies, including the Secretariat of Economic Development. By 1995, many division managers and mid-level employees in the Secretariat were also owners of smaller-sized manufacturing establishments[14] or were sympathetic to the needs of this previously ignored industrial constituency. Many were also actively involved in their respective business associations and recognized the challenges and need for associational reform. Added pressure for state and associational reform came from the federal government, which in granting the shoe and garment industries temporary protection from imports, asked in return for substantial improvements in firm performance and the functioning of their representative associations. Still, despite public awareness of this growing commitment to reform and a newly-elected state government, association representatives and those from the Secretariat faced resistance and skepticism from small and medium apparel manufacturers. In response to this tension, representatives from both organizations initially worked behind the scenes on less intrusive, but still crucial, support and promotional activities.

In their on-going work with small- and medium-sized apparel manufacturers, state planners and extension agents have encountered three main challenges. These challenges—and the solutions devised by program administrators and designers to better deal with them—are the focus of the remaining sections of this paper. The first challenge relates to initial difficulty in identifying and securing a commitment from garment producers from the region, both sophisticated producers and less advanced ones. The second, which is an extension of the first, is the challenge of maintaining group interest and cohesion despite important differences in participating firms in terms of their market specialization and product line. The third is the challenge of building on informal ties developed during the AGREM program in order to create and sustain formal interfirm alliances and mentoring circles.

This is not to say that the garment AGREM has been a failure. In fact, quite the contrary, as was shown in an earlier section of this paper outlining the developmental contributions of AGREM-facilitated mentoring. Rather, through their recognition of and quick response to each of these challenges we not only see the true administrative skills and entrepreneurial talent of those currently working for the Secretariat and ITESO, but more importantly, begin to see the reflective planning processes and practices (Schön, 1983) through which related upgrading initiatives can be applied to other regions and industries that are also challenged by weak representative structures, industry infighting and mistrust.

Responses to a "Severe Starting Problem"

Program administrators attempting to facilitate greater interfirm cooperation

[14] These individuals were not from the apparel or leather goods industries.

among apparel manufacturers soon discovered they faced what Semlinger (1995) calls a "severe starting problem." In contrast to promotional meetings that targeted shoemakers in 1996 and thereafter, attendance at meetings designed for Guadalajara's apparel industry was initially very low. For example, only six garment manufacturers attended the first of five promotional meetings held at the state's garment association's offices in 1997.. Initially, program administrators responded by allocating more resources to advertising, purchasing additional air time on local radio stations and reserving larger sections of popular, business-oriented circulars and regional newspapers. Low attendance at follow-up meetings, including "no-shows" by earlier attendees claiming to be ready to "sign up" for the program, forced administrators to experiment with more direct and, at first, individually-oriented tactics.

In contrast to strategies available to administrators working with the shoe industry, those in garments could not simply "pack" initial training sessions with governing board members.[15] Evidence of corruption and theft on the part of the garment association's governing board surfaced in the mid-1980s. Despite changes to the association's leadership and improvements to internal governance structures, the association continues to suffer as a result of this earlier mismanagement. By supporting the diffusion of the AGREM program, industry leaders have hoped to demonstrate their improved leadership skills and more specifically, their commitment to assisting a wider spectrum of member firms, including smaller and more marginalized manufacturers. However, as part of their on-going effort to improve the reputation of the organization and their desire to demonstrate that association-sponsored activities are not designed to profit only the organization's elite, most governing board members opted initially to play a less direct and less visible role in the AGREM program.[16]

Program Front-Loading, Promotional Duality and Creative Use of Celebrations and Testimonials

Two strategies, when combined, helped program administrators eventually secure enough local interest in the program to schedule a formal contract signing event. Both strategies were also useful in limiting the risk of mid-program desertion.[17] First, administrators contacted firm owners by phone to arrange a series of short introductory meetings held at a location of their choice. In most cases, firm owners preferred to meet at their own factories or warehouses. Firms were selected, somewhat at random, using past and present membership lists compiled by staff at the state's garment association. Once a list of potential candidates was drawn, administrators met with staff members again to develop a basic profile of each firm and business

[15] In the case of the shoe industry, board members are strongly encouraged by the association president to sign up for the shoe association's training programs, especially the AGREM. They are expected to draw on their personal experiences as trainees in order to better promote and sell these training services to other members of the association and to government funding agencies.

[16] Original governing board members have contributed indirectly to the AGREM program as advisors and in some cases, act as "model firms" during the group critique and factory visit phase.

[17] Similar efforts to front load the process in order to reduce cases of mid-program desertion have been used in successful job training programs in the United States (Osterman and Lautsch, 1996).

owner and discuss potentially damaging social dynamics that might occur with group interaction.

Second, representatives from ITESO, but not those from the state's garment association or Secretariat, were present at most of these introductory meetings. At first, this division of labor was quite unintentional and simply reflected administrative scheduling conflicts. However, ITESO's relative neutrality and apolitical image in terms of formal party affiliation in comparison to its more politicized partner organizations proved to be very useful when establishing initial and direct contact with firm owners, especially more skeptical ones. ITESO's solid reputation in the state, including its progressive, community-oriented traditions, its Jesuit origins and teachings and long-time association with well-coordinated, grassroots development and outreach projects put many small business owners at ease. For these same reasons, extension officers and staff from ITESO continued to act as primary coordinators of training and had more direct contact with participating firms than representatives from the other two agencies. Program administrators from the state's garment association and Secretariat instead focused on key background activities, including lobbying for federal funding, setting fees and carefully monitoring and evaluating the program's progress. On a few occasions, representatives from these agencies would be invited to attend and observe key training sessions, group meetings and formal events.

For reasons mentioned above, direct contract between local firms and representatives from the state's garment association often hampered initial promotional efforts. Regular contact with representatives from the Secretariat of Economic Development, though more varied in terms of how firms responded, created some additional start-up problems. While some firms were initially receptive to state planning agents and expressed their support for the Secretariat's decision to increase financing for small business development programs, others reacted defensively and remained suspicious of the true motives of newly elected or appointed officials. Given the historic lack of public support for small firms in the state, these reactions were somewhat justified. Between 1940 and the mid-1990s, a greater share (at times as much as 90 percent) of the state's economic development budget was reserved for subsidizing larger-scale, export-oriented establishments in consumer goods industries like garments, shoes and food processing and new investments in more capital-intensive sectors (Arias, 1983; Rabellotti, 1995 and 1999; Spener and Pozos, 1996). This is despite the fact that small manufacturing establishments account for the largest share of manufacturing jobs in the state.
The dual nature of the AGREM program, in terms of its combined use of structured off-site classes and more interactive on-site trust building activities, further helped local promoters target and secure a commitment from firms with different needs, interests and skills. During introductory meetings with individual firms, representatives from ITESO outlined both the classroom training and joint consultation (factory visits) components of the program. For smaller firms, the chance to observe larger, sophisticated manufacturers from the state and the prospect of eventually partnering with them was, initially, very appealing. So were new opportunities for experimenting with and testing out higher-

order activities, especially within a supportive environment that offered structured guidance and constructive critique. Young firm owners and new investors in the industry were especially drawn to this part of the training process.

In contrast, for many high-volume assemblers and brand name manufacturers, and even some older business owners from the state, the AGREM program was initially valued for its well-designed certificate and classroom training phase (*diplomado*) and related support materials, including printed manuals, workbooks, management reviews and case studies. For most skilled firms, the formation of collaborative ties with other less experienced firms from the region was not however the initial draw. Rather, this aspect of the AGREM was considered a small conditional "fee" that participating firms would "pay" in exchange for receiving subsidized training from and access to a group of highly-reputable business consultants, financial experts and export advisors. Group discounts and matching funding from the state substantially lowered the cost of these consulting services for individual firms. The depth and range of topics covered during a short period of time and use of highly qualified consultants from multiple private and public organizations were equally appealing. Finally, securing support from large, brand name firms from the region (specifically those chosen as "model firms") proved much easier. Their existing political and social ties to the governing elite of the state's garment association and a strong sense of loyalty to the industry made it easier for program administrators to secure a commitment and interest from these firms once a group of core participants had been identified and vetted.

After meeting individually with several dozen firm owners over the course of two months, ITESO and the Secretariat co-sponsored a weekend retreat at the University's main campus. Previously contacted firms were encouraged to invite friends and family members also active in the local apparel industry. The event, which was free for participant firms, was used to establish a working dialogue between firm owners, introduce firms to the joint consultation process and AGREM methodology and provide concrete examples of the benefits of this form of collective upgrading. Scheduled activities therefore included workshops led by shoemakers from the state who had previously participated in the AGREM or *Agrupamiento Industrial* training programs. Evaluation papers and individual testimonials from earlier sessions were also presented, as were samples of training manuals and other support materials. Speeches were made by key officials from ITESO, the state's garment association and the Secretariat and were used to illustrate the historic significance of the program and its contribution to regional development and competitiveness. During the second day of this two-day retreat, faculty and staff from ITESO guided team and trust-building activities and games. In October 1998, approximately three months after ITESO began its extensive search process, 12 small- and medium-sized garment manufacturers (mostly those attending the retreat) signed an official program contract at a highly publicized meeting attended by key political figures from the state, including Jalisco's Governor and Minister of Economic Development.[18] Similar processes were used to

[18] Similar processes were used in Spain by development practitioners targeting small firms in

secure interest in the industry's second AGREM in early 1999 and a third one in 2000.

Sustaining Joint Consultation: Classroom Training, "Rallying Events," Small Project Planning and Institutionalized Storytelling

After the contract signing event, program administrators faced two additional challenges. First, how group interest and cohesion was to be maintained despite significant differences in the market orientation of participating firms. Second, how to build on informal, intragroup exchanges and social ties to create formal business alliances and registered cooperatives—something the Secretariat was particularly interested in developing. In both cases, initial classroom training sessions once again proved to be quite instrumental.

During the *diplomado* phase, firms are able to observe others in action, identify personality traits and, more importantly, build solid social foundations that are later useful when formalizing intragroup alliances and mentoring networks. Firms are encouraged to speak up in front of the group and with guidance from program coordinators, work through conflicts and personality differences. They also use this period to collectively access the qualifications of local consultants, business specialists and student interns, some of whom may be hired later by some of the firms to perform more intensive, on-site, analyses and restructuring. As a group, they have learned how to collectively develop rules of engagement, including determining what constitutes "design/idea stealing," "client poaching" and nonconstructive critique. In addition, they have developed intragroup review processes and "just" enforcement mechanisms.

In all of these examples, the classroom is considered a neutral, safe zone or *social laboratory* for working through pressing issues and lowering the chances of later flare-ups or misunderstandings. Interestingly, the developmental contribution of off-site classroom sessions has not been well recognized by evaluators of small firm training programs. Rather, program analysts and evaluators often recommend bypassing or phasing out classroom training altogether because off-site interactions are considered to be too removed from the site of production to alter or affect firm behavior (Harper, 1984; Boomgard et al., 1992). This policy recommendation does take into account the "tacit," experiential side of firm learning. As policy advice, and given the strategic importance of classroom exchanges for mentoring development, this wholesale rejection of classroom training is not only premature but may also act to undermine a key contributor to consensus building and group formation.

In addition to the strategic use of classroom time, coordinators have developed three other interconnected strategies to facilitate greater cohesion of the group. The first is to identify and emphasize one or two shared constraints or "regional bottlenecks" that all firm owners faced, regardless of size, market orientation, skill level or years of formal schooling or hands-on training. In the case of the first garment AGREM, coordinators concentrated on the tight local labor market created by Guadalajara's rapid expansion of multinational elec-

the country's marble processing industry. See Barzelay, 1991.

tronics assembly plants between 1998 and 2000 (during these years unemployment in Guadalajara averaged 1.8 percent). For all AGREM participants, competition from resource-rich electronics multinationals for skilled and semi-skilled workers negatively affected their relationships with existing clients, especially those wishing to increase their production quotas in response to expanding consumer markets nationally and abroad. This shared challenge was used as a core discussion and "rallying" point around which classroom training sessions were organized, interpreted and evaluated. It also became a logical starting place for firms to experiment with group activities and projects, particularly ones that helped both large- and small-sized establishments share and develop their existing human resources.

Coordinators have used similar techniques to force firms to *think outside of the box*, especially when it comes to regional views on local competition and rivalry. Specifically, coordinators are retraining local manufacturers to now consider the skills and knowledge of their manufacturing colleagues as an untapped asset or resource rather than a mere threat to their own existence.

A second strategy, used by program coordinators to jump-start the mentoring process involved developing experimental group projects with short time horizons. In the case of the third garment AGREM, for example, participating firms, as a group, shared a display booth at a Secretariat-sponsored trade show, *Hecho en Jalisco*. For two months, AGREM firms worked in small teams to determine, first, whether or not the project was viable, and if so, to collectively determine how much money to individually contribute to the project; how best to market and display their wares collectively under a single brand name and image; how to make best use of a small display area; how to transport and insure goods to be displayed; and how to respond to initial interest on the part of potential clients and, once an order was placed, how to equitably divide up production and logistics-related tasks among all group members. Graphic designers from CEJALDI—the Secretariat's regional design center established in 1998—helped the group develop their logo and brand image. The state's garment association helped the group invest and manage their collective funds in an interest-earning deposit account.

The third strategy is less tangible in form and involves institutionalized story telling and narrative development. Often, during interviews with participating firms, the same two or three stories were repeated over and over again. These stories were circulated among participants to demonstrate the benefits for firms actively involved in the AGREM and mentoring processes. One story concentrates on a large-scale, brand name manufacturer's realization of the benefits of mentoring at a key transitional and crisis moment. By working closely with his smaller, and initially less skilled counterparts, this firm owner was able to quickly rebound from the closure of his main manufacturing facility (due to financial strain and unresolved differences with his business partners) and transition to lower-volume, design-sensitive niche markets. A second story, involves a smaller, barebones manufacturer that initially marketed her wares to low-end, low-profit informal retail markets in Guadalajara. In this case, the firm owner was able to observe modern production techniques and practices used by larger model firms and mentors. Eventually, she restructured her shop floor (switching from line production to team or "cell" assembling) and, as a result, more than tripled her hourly productivity. She also phased in production cells dedicated to serving higher-end consumer markets and quality-conscious retailers. This restructuring itself was conditional on her work with business consultants and upgrading specialists from the state—individuals whom she gained access to through her close-knit ties with larger, resource-rich firms and AGREM training coordinators.

Conversations with the actual protagonists of these tales revealed slight discrepancies in terms of factual detail and sequencing. Still, despite their almost myth-like quality, these popular narratives and interpretative accounts—one reinforcing the reciprocal gains of mentoring for skilled firms and the other emphasizing the learning opportunities available to less experienced, less skilled manufacturers—remain powerful instruments for strengthening group identity and cohesion. They not only provide participating firms with greater hope and added security, but represent a useful benchmark with which to relate, compare and direct their own collective experiences and exchange. Program administrators have helped to further develop and support the use of such narratives. They often refer to them during moments of group crisis or conflict. They also use them, in conjunction with written testimonials, to promote the AGREM methodology to the next generation of potential participants.[19]

[19] This strategy is somewhat reminiscent of what Sabel calls—in his review of efforts to revitalize the machine-tool industry in Pennsylvania—a reinterpretation of an industry's "collective past" (Sabel 1992:218). In the Pennsylvania case, groups of firms often suppressed examples of past conflict and instead worked to develop a new identity based on strong trust and collaboration. In Jalisco, instead, the past is often portrayed as conflict ridden—often to the point of exaggeration—and is used to help reinforce the positive results and transformative quality of the AGREM.

AGREM's Impact on Joint Upgrading

During interviews with and observations of garment manufacturers in Guadalajara, three *types of joint upgrading* developed through the AGREM training program were identified. The first type of assistance involves teaching firms how to test, develop and master higher-order skills in core aspects or areas of production and design. The second involves developing skills and services for locating quality suppliers and clients, and accessing stable niche markets. The third type of assistance deals with teaching firms how to get more involved in regional planning and policy development and become effective agents of change.

Testing, Developing and Mastering High-Order Skills in Core Areas of Production and Design

Typically, this type of assistance requires establishing more formal production sharing arrangements in which less skilled manufacturers partner with a small group of brand name firms and initially assemble products for them. Under the guidance of these brand name mentors, barebones assemblers are first encouraged to make suggestions and implement basic changes to initial prototypes/patterns—for example, deciding which stitch to use or cut to make for a given item or section. Eventually trainee firms are given greater responsibilities in design aesthetics, including learning how to test, experiment with and combine texture, style and accessories. In one case, mentoring firms were linked together through a computer network system and were able to exchange and critique design ideas via the Internet with the help of computer-aided design software and specialized equipment. In order to develop a greater awareness of seasonal fashion trends and local style preferences, groups of mentoring firms have also attended international apparel trade shows in Mexico and the United States and have scheduled group trips to regional markets and high-end department stores and retail establishments.

In some cases mentor firms brokered "full" or "complete package" deals for their less experienced counterparts. Under these specialized sourcing arrangements, contract manufacturers work closely with a client to translate an abstract design vision or concept into a complete product range. Complete package manufacturers are not only responsible for the design, production and finishing of an item of clothing, but work with graphic artists and designers to produce boutique-ready labels, packaging materials (e.g., tissue paper and retail bags with logos) and other "image"-related and promotional items (e.g., posters, postcards and brochures). In brokering deals, experienced mentor firms often provide free warehouse and storage space, along with assistance in quality control, shipment packing and labeling, customs (for international orders) and transportation.

As a result of these exchanges, former barebones manufacturers now find themselves in a better position to offer design-related advice and services to potential and new clients. The experiences of *Textil y Confección* help to better illustrate some of the benefits of this form of small firm upgrading. In the late 1990s, the owner of Textil y Confección formed a mentoring network with a small group of local brand name manufacturers that he met as a participant in the state's joint consulting training program. As a result of his on-going exchanges with these skilled firms—which began as basic production sharing arrangements and evolved into more intensive, design-oriented, full package partnerships—he was able to expand his manufacturing operations and open an additional factory dedicated to the design, labeling, local marketing and packaging of his own line of fashion clothing. High demand for his new skills, client services and brand name products has, in turn, increased his own demand for permanent workers, including those trained in product and graphic design, quality control and systems management.

Larger, more experienced firms also managed to perfect their design, production and logistics management skills through mentoring exchanges. In one case, a reputable jeans manufacturer from the region was able to draw on his existing mentoring ties in order to quickly transition from threatened, high-volume consumer markets to more secure niche markets that required frequent changes in design, style and brand name. During the 1990s, this manufacturer worked with two other investors from the region to open a large-scale manufacturing operation (*Nuevo*) dedicated to the production of *vaquero* or cowboy style jeans for men and women. Success in this once-stable market made the manufacturer a perfect candidate for training less experienced, smaller assemblers in product finishing, quality control, logistics and production coordination and plant administration.

In early 2000, however, this market segment became less secure, due in part to a dramatic change in jean fashion that favored the production of small batches of more uniquely accessorized, stretch denim pants and jackets for women. Financial troubles and differing opinions on how to better respond to these market changes resulted in the eventual closure of *Nebo*'s main manufacturing and finishing plant. In order to quickly adapt to this new challenge, the entrepreneur turned to his mentoring partners for help. He first delegated production and finishing tasks to these partner firms, working closely with them to develop a range of affordable designs and styles for local retailers targeting young women. His mentor partners produced small batches of uniquely styled stretch jeans, differentiated slightly by their use of different types of "laundered" denim, length and cut of leg and torso area and placement and use of accessories, like sequins, decals, patches and fringe. In most cases, these manufacturing firms had already developed core design skills by working closely with other brand name manufacturers also active in the mentoring network. The entrepreneur concentrated on marketing and brand image, at times developing exclusive "sub-brands" as a way to feature and quickly sell hybrid design styles. He also drew on his existing industry contacts to locate reputable suppliers of stretch and colored denim and identify local "laundry" facilities specializing in the latest chemical and laser processes for aging and dirtying denim fabric.

In a second example, a skilled, brand name manufacturer from the state was able to build on local mentoring ties in order to support new investments in specialized design equipment and technology. The owners of *Industrial Viejo*—a small, but highly experienced maker of popular designer jeans—financed their investment in a state-of-the-art pattern-making printer and computer network system by first offering design and printing services to firms in their mentoring network. The machinery was imported from Europe and cost the firm more than US$15,000. Through these exchanges, the firm's owners were able to get group feedback on how much to charge for these services, develop a local reputation for honesty, including legal guarantees that design ideas would not be stolen or copied and test and devise new ways to market such services to firms outside the mentoring circle. Today *Industrial Viejo* has over a dozen small clients from the region—close to half are no mentoring firms. These firms rely on his printing services in order to implement quick changes and improvements to original designs and production templates.

Market Access, Procurement and Client Selection

A second area of upgrading assistance involves *developing skills and services for locating quality suppliers and clients and accessing stable niche markets.* In one case, a group of mentoring firms developed a collective screening service for identifying and establishing contact with reputable buyers and suppliers from Mexico and the United States. The mentoring group created and manages *Inter Jeans,* a member-based organization made up of forty firms that compiles and circulates information about local and foreign buying firms and agents. They also organize and host quarterly trade shows targeting select buyers from the United States and coordinate meetings between foreign buyers and local jeans makers. The goals of *Inter Jeans'* founders are to provide a matching service that brings smaller firms in contact with experienced reputable buyers; and to enhance the image of the region and its international standing as producer of high quality, competitively priced denim separates.

Many small garment manufacturers in Guadalajara are wary of foreign buyers and, as a result, tend to avoid transnational sourcing arrangements. This is due in part to widely circulated tales of unjust contract stipulations, unpaid invoices and buyer bullying tactics. *Inter Jeans'* collective screening and client matching services has helped to improve the reputation of foreign buyers in the region. This service has also helped local manufacturers identify and target foreign buyers interested in fashion-oriented, low-volume producers and especially those seeking to work with manufacturers that have already developed a sensibility for Latino design and style preferences.

Inter Jeans' founding members have also secured group discounts from key textile and machinery suppliers from the region and organize monthly, supplier-sponsored fashion shows, informational meetings and social gatherings. The North American economic slowdown has forced many large transnational suppliers to actively court new and smaller apparel makers in the region. *Inter Jeans* has managed to use this to their advantage, asking that suppliers present the latest information on fashion technology, design and marketing in exchange for meeting with their member firms. In one example, a team of analysts from DuPont gave a state-of-the-art presentation on industry and fashion trends normally reserved for Mexico's elite and larger apparel manufacturers. As with potential buyers, less known suppliers from inside and outside the region are first researched and vetted by the group's governing board. Similar screening and support services will soon be offered by *Inter Kid*, a market assistance organization currently being designed by a group of AGREM trainees that manufacture children's clothing.

Mentoring firms that are linked formally through shared production arrangements are also finding themselves in a position to better identify and target reputable clients from outside the region. In one example, a group of local jeans manufacturers used their mentoring ties to access ethnic niche markets in the United States, stressing their ethnic edge or advantage to retailers now targeting Mexican and Central American consumer markets in Southern California and Texas. They are also marketing their production coordination skills to smaller retail shops and boutiques in the United States—commercial establishments that traditionally depend on market intermediaries for product design and development, quality control and logistics management.

In this case, the mentoring network has internalized these specialized activities and services, first by selecting experienced export firms from the group to manage quality control, production coordination and customs processing and, second, by formally partnering with a reputable Los Angeles-based apparel salesman. To lower production costs and group overhead—and ultimately client prices—all finishing, quality control, sorting and packaging tasks are completed at a single warehouse in Guadalajara's city center. To lower travel costs and help facilitate open dialogue between client firms and manufacturers, meetings with key U.S. buyers usually involve a manufacturing representative from Mexico and are scheduled to coincide with international apparel trade shows in the United States. The network is now using their good standing in Latino niche markets in Los Angeles and Texas to better market their services and ethnic sensibilities to larger retail chains and prominent buying firms in the United States.

The Politicization of Industrial Development and Regional Investment

The final area of upgrading assistance involves *teaching firms how to get more involved in regional planning and policy development and become effective agents of change.* While the previous examples show clear evidence of product, process and functional upgrading, this section outlines a fourth category of upgrading in which firms work together to improve existing institutional structures and support systems in the region. Mentoring firms have encouraged each other to become more active in the state's garment industry association and industry-based research and lobbying committees. As a result, mentoring firms now make up a large share of the association's current governing board. Their active participation is helping to improve the local and national standing of the region's business association. Mentoring firms are also active members of association committees formed to pressure state and federal government agencies to improve industrial policy, education systems and customs policing. Within the last year, a handful of mentoring firms have applied for and been granted observer status at Jalisco's international airport and main sea ports. Credentialed firm owners are permitted to drop in and observe customs officers in action. They are also entitled to request random searches of cargo ships, mailed packages and suitcases and ultimately work as a team to help reduce the illegal importation of foreign-made garments.

Mentoring firms are active members of association-backed committees that compile and maintain extensive, comparative databases on international production and transportation costs, education rates, employee wages and tax codes. This information is used by association staff and representatives when requesting extensions on tariff protections and is used to secure additional political support for small business assistance and regional upgrading initiatives. Groups of firm owners are also assigned to monitoring teams that patrol informal street markets and use various sampling techniques to estimate and record the number of contraband or smuggled goods sold at local markets each week. In each of these cases, firms are encouraged by their mentoring partners to channel individual frustrations into concrete political actions and regional demands for greater economic justice and policy accountability.

Mentoring networks are starting to play a more active role in standard setting, not just in terms of testing product quality and improving standard business practice, but more recently, in determining how firm owners should improve their relations with employees and how they should respond to more questionable sourcing opportunities and contracts. Standard setting is done both formally (at public meetings) and informally (during interactions between small groups of firms) and usually starts with group discussions about how to devise long-term development strategies for the region and industry. During these meetings, firms discuss and define what they consider legitimate channels or means for building regional competitive advantage. Again the recent North American economic slowdown has been used as a key rallying event around which group meetings and brainstorming sessions are organized. Quick fix solutions (such as cutting corners, lowering wages or taking advantage of short-term exchange rate fluctuations in order to temporarily export) are typically frowned upon by mentoring firms and are considered spurious and unsustainable acts. Mentoring firms instead work with each other and their industry representatives to identify and evaluate sustainable development strategies and survival techniques. As discussed, business extension agents and researchers from ITESO (Guadalajara's largest Jesuit University, with a long tradition of progressive social and community activism) help guide them in this process.

On a related note, mentoring firms encourage each other to stay invested in the industry and the region—both financially and emotionally. This helps to offset a disturbing counter trend of disinvestments that has emerged in parts of the state's industry not yet exposed to or active in mentoring circles. The most visible group now choosing to distance themselves from the local industry are some medium and large manufacturers from Guadalajara that earlier managed to secure captive contracts with prominent buyers in the United States. This small, but closely watched group of firms, is increasingly adopting the negative views and changed attitudes of their prominent foreign buying agents. Starting in the early 1990s, U.S. buyers considered Mexico a prime location for export assembly. Lean retailing requirements led to the extensive search for strategic manufacturing facilities and business partners in North America and the Caribbean Basin (Gereffi, 1999; Abernathy et al., 1999). Mexico's entry into NAFTA and subsequent peso devaluation helped its resident apparel firms and investors secure the largest share of outsourced orders from the United States.

Today, however, a growing number of U.S. buyers believe that Mexico's garment producing regions are losing their competitive advantage. Some blame Mexico's strengthening peso, the emergence of low-cost manufacturing facilities in neighboring Caribbean countries and China's recent entry into the World Trade Organization. To justify their termination of long-standing contractual relations. Others, however, accuse Mexican contract manufacturers and suppliers of being inexperienced, slow to learn and unreliable. Frustrated export-oriented manufacturers from Guadalajara often turn on their own, rather than on foreign buyers, as they try to make sense of this new challenge. They, too, criticize their local colleagues, suppliers and even government officials for bringing down the global production standard. However, rather than work together to try and elevate their current international standing, many disenfranchised contract manufacturers are now choosing to withdraw from the industry and region in anticipation of Mexico's "global garment bust." The result is a perspective of the region's apparel industry that can only be described as *dismissive fatalism.* This perspective reflects a potentially divisive form of knowledge transfer not yet recognized by scholars and policy analysts still blindly pushing for greater transnational economic integration.

For mentoring firms in the state, new economic pressures and uncertain futures have instead fueled additional rounds of collective action and have led to a further strengthening of their political and collective voice. Local frustrations and fears, rather than undermining the group dynamic or triggering rounds of disinvestment and distrust, are instead the basis for lengthy group discussions, brainstorming sessions and deep, reflective analysis. New concerns and pressures are also used by groups of mentoring firms to justify and push for the restructuring, rebuilding and reorientation of existing business alliances and formal collaborative projects. To adopt Hirschman's (1970) descriptive terms, mentoring circles enable active firms to show their loyalty to the region and historic cluster, while still encouraging them to be strategically vocal and constructive in their critique of disruptive economic trends and policies. As mentoring networks become more visible and accepted in the region, they are also helping to broaden the strategic choices and developmental alternatives available to their less organized local observers and manufacturing colleagues.

On-going Challenges and Adaptive Responses: Free Riding, Sectoral Mismatch and Intermittent Struggles for Group Control

Despite the relative success of the garment AGREM and innovative mix of trust-building activities and processes, not all program-related bottlenecks have been resolved. Uncertainty, both in the local economy and social system, remains a given for firms and program coordinators in the state. New pressures have emerged. Others have intensified and now limit parts of the AGREM and mentoring process both for earlier and present-day participants. In the case of the first three garment AGREMs, for example, major differences in market or sectoral orientation on the part of participating firms hindered the development of cohesive alliances and complete group cooperatives. Instead, formal and informal mentoring circles have been established by subgroups of participating firms, particularly those producing similar or complementary goods. *Textil y Confección's* design support group, *Nuevo's* market transitioning team and larger, well-publicized projects like *Inter-Jean,* and now *Inter-Kid,* reflect this subdivision.

For trainers and coordinators—those in direct contact with firms and those most aware of the challenges of group formation—these formal, subgroup projects are still a success despite their exclusionary nature. This subdivision however, is considered more problematic for program administrators and policy designers from the Secretariat of Economic Development and the apparel manufacturers association as both agencies had initially expected to see the emergence of a single, cohesive and registered cooperative from each AGREM. The state's garment association even put the AGREM process on hold last year until a solution was identified.

Program coordinators and promoters from ITESO responded to this new challenge quickly and revised key parts of the AGREM start-up process when targeting micro and small firms in the state's metal working and artisan goods industries. During the first metal working AGREM (initiated in 2000), similar problems to those found in garments arose when coordinators tried to develop a more cohesive, formal alliance or cooperative involving all participating firms. Coordinators soon discovered that the group was too diverse in terms of market orientation to formalize or sustain a production or marketing cooperative. Makers of metal clothes hangers worked side by side with complex machine tool makers, just as fashion jeans manufacturers were trained with producers of baptismal and ceremonial children's frocks. These differences made it difficult for all firms to agree on what to do with their collective training, skills and resources. In the case of garments, for example, the group could only agree to work as a cohesive whole in order to request funding for additional, specialized training and expert advice.

This year's metal working AGREM has, therefore, been designed differently and with this constraint in mind. During the pre-contract signing phase, program administrators completed extensive research on local and regional demand for metal-based products. Potential downstream or purchasing industries were first identified. Next, program administrators met with key representatives from these industries and negotiated captive purchasing orders. Leaders from the state's jewelry and food processing industry associations expressed an interest in working closely with local firms to develop specialized capital goods and machinery. Using this as the basis for firm selection, program administrators have narrowed their list of potential AGREM candidates, but continue to use earlier mentioned processes to first contact firms and develop group trust. Similar revisions have been made in the artisan goods AGREM. The training session concluded with the much celebrated formation of a 15-firm marketing cooperative and catalog sales company.

In addition to dealing with the consequences of an initial sectoral mismatch, program administrators also had to deal with the classic free-rider problem. Free-riding here involves cases where firms are in violation of basic group rules and norms. At the extreme, are cases where firms have consciously stolen design ideas and poached clients from other group members. More typical examples, include passive acts where firms fail to show up for scheduled training sessions and groups events, fail to sign up for group work or complete assigned/shared tasks or act in ways that ultimately threaten the cohesion and harmony of the group. An additional challenge relates to episodic struggles for group control by individual firms.

For program administrators, instances of free-riding and intermittent struggles for group control among participants are initially viewed as *expressions or acts of individual frustration,* rather than signs of deeper character or personality flaw. Only in rare cases (such as blatant design or client stealing) are firm owners who behave badly asked to withdraw from the training program. In most cases, problems of free-riding and intragroup control are resolved through a deepening of the group process. To identify the proximate cause of this frustration, program administrators use a variety of techniques.

The first involves scheduling private conversations with firms that are not pulling their weight. These conversations take place during training breaks, and before and after group meetings. Administrators try to find out if nonperforming firms are actually unhappy with the group process, or instead are struggling with individual concerns or constraints (e.g., financial struggles, production bottlenecks, labor-management disputes, even personal crises and family emergencies) that make it harder for them to fully engage with or commit time and/or other resources to the group. In cases of work overload, program administrators often try to get firms to ask for group support. In some cases, rallying to support a struggling colleague becomes part of the *experimental mentoring process* described previously. In cases of repeated no-shows, program administrators schedule a factory visit to assess the problem and brainstorm about possible solutions and group members are also encouraged to contact the firm.

Program administrators also set aside time for formal group evaluations and process reviews. Formal evaluation sessions, which are scheduled every 3 to 4 weeks, start with a detailed questionnaire that is designed by students and researchers from ITESO. With the help of program administrators, students record each firm's response. Questions are based on a scale system and firms are asked to rank their reactions to a given statement on a scale of 1 (in agreement) to 5 (not in agreement). Students and program administrators then analyze the data quantitatively and present the results to the group. Through the questionnaire, program administrators and evaluators try to capture the level of comfort and satisfaction with the training process; relevance of training and specialized consulting services; satisfaction with the group process; degree of or change in level of group trust; level and intensity of interactions between firms, both during and after weekly training sessions. Under the direction of program administrators, questionnaire results are discussed and analyzed at length by the group. While program administrators know the identity of individual respondents and keep records which they compare over time to track changes in attitude and level of satisfaction, they keep this information confidential when presenting their analysis to the group.

Finally, tensions arising between group members and program administrators are identified through an on-going, inter-organizational dialogue. Over the years, program administrators have learned to see association staff and governing board members as a valuable source of information when trying to gauge the level of participant dissatisfaction. In the case of both apparel and shoes, select AGREM training sessions and project organizing events took place at the main offices of industry associations in Guadalajara. Firm owners often arrive early or stay late during these training sessions, as this allows them to complete association-related business (pay fees, look up the latest market data, browse industry bulletin boards, discuss lobbying tactics, voice concerns about emerging industry trends, etc.). During their interaction with association staff and representatives, AGREM firms often share their opinions about and frustrations with the AGREM process, describing in detail the parts they like and those they do not. This information (though without reference to specific firms) is then passed along to program administrators during bi-monthly meetings with association representatives. Association staff and representatives in turn encourage this dynamic exchange with AGREM participants, as it also allows them to develop a better rapport with member firms, identify potential governing board candidates and approach and court nonmember firms participating in the training sessions.

Case Lessons: With a Focus on the (Over)Marketization of Small Business Support Services

Development scholars have long believed that, in order to survive difficult economic times, local manufacturers, particularly those that are smaller and resource constrained, should work closely together. What this case study shows, however, is that firms in developing economies do not always arrive at this conclusion together. As discussed in the Guadalajaran case, the path to cooperation is often obscured by existing relational patterns and dynamics, inexperience and miscommunication and even by the transformative effects of global integration. As we have also seen, institutional actors can play a crucial role in clearing the path to cooperation and shaping the developmental goals of those encouraged to follow it. Their intervention, however, is not without its own set of challenges and constraints.

The relative success of the AGREM program in getting small and medium firms to commit to joint upgrading and providing them with the skills and know-how to sustain innovative forms of interactive learning and mutual support stems from an on-going commitment to adaptive problem-solving by program administrators. Agencies active in supporting joint upgrading, including the state government, university and manufacturing association, pool their collective knowledge of the industry and share important insights on existing relational dynamics. They also carefully divide tasks related to program promotion, implementation and evaluation with place-based contingencies and social histories in mind. They dedicate scarce policy resources to institutional recycling by drawing on, adapting and linking existing programs and support services already considered a success by economic actors in the region. They also make sure that firms see the larger symbolic value and development contribution of their participation in the AGREM program.

Today, many studies and evaluations of small business support programs in developing countries start with the basic assumption that service delivery is best left to the market. Under this framework, competition between multiple private service providers is considered the optimal mechanism for separating and evaluating good providers from bad. Similarly, under this logic, , for-a-fee services add to the competitive dynamic as fee-paying clients are expected to demand higher quality service in exchange for their investment. By this same logic, if quality considerations are not adequately addressed by an individual service provider, client firms can simply take their money elsewhere. Low program turnout or an unwillingness by firms to pay for such services are therefore considered good proxies for poor program design and signify a failure on the part of program administrators to capture and respond to the real needs of a region's industrial constituency.[20]

The process of discursive planning by which program administrators first observed, then copied and quickly adapted

[20] For recent examples of this perspective, see McVay (1999), Lazerson (1999), and McVay and Meihlbradt (2000).

the AGREM methodology and governance structure to fit Guadalajara's garment industry and start-up conditions calls into question this line of reasoning—not in terms of whether or not there is a role for market forces in service delivery, but whether such enforcement mechanisms, in and of themselves, are adequate for securing and sustaining a commitment to joint upgrading by local actors. This is not to say that we should automatically return to an earlier era in which scholars of international development promoted autonomous and centralized government planning and top-down control. Federally managed, top-down joint consultation programs, like SECOFI's *Empresas Integradoras* in Mexico, have encountered related challenges when attempting to secure and sustain firm interest.[21]

What this case study suggests instead is that evaluators and practitioners working on small firm initiatives and support services need to develop more adaptive analytical frameworks and problem-solving techniques to capture and respond to the complex environments in which firm owners and their policy advocates work. This includes developing improved methods for studying and mapping the institutional layers and arrangements through which local actors learn to innovate, adapt and cope with new economic and social realities, challenges and opportunities, and through which daily routines and practices are infused with greater meaning and purpose.

In the case of Guadalajara's AGREM, for example, the ability of program administrators and promoters to identify and adapt to new circumstances and challenges stems not from competition with other service providers from the region, nor the simple collection of client fees, nor the government's autonomous demands, but rather from: (i) a tripartite governance structure that encourages and rewards *adaptive learning and policy innovation* on the part of program designers and coordinators; (ii) a shared sense of *purpose and mission* linking participating development agencies and their front-line workers—small firm assistance in Guadalajara is now considered part of a broader, region wide movement for distributive justice and policy accountability; (iii) scheduled "time-outs" for in-depth *program reviews and evaluations*, in this case corresponding with key elections and political shifts at the industry and government level; and, (iv) an emphasis on *coordinating and managing,* as opposed to directly providing, *expert and technical advice.*[22]

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[21] In the state of Jalisco, the *Empresas Integradoras* (EI) program has yielded very poor results since 1995 in terms of the number and quality of participants. In contrast to other states, Jalisco—given its high share of small manufacturing firms—has one of the lowest participation rates in the country. Furthermore, no EI cooperative in the state made it to SECOFI's "best practice" list. Rather than responding to these challenges, however, regional delegates and front-line workers at SECOFI continue to observe federal mandates that limit pre-contract signing and start-up promotional activities. They have made little attempt to market this program individually to firms, nor research the wider political and social processes that might affect turnout. Rather, they continue to use the same promotional techniques—scheduling short, two-hour introductory meetings at large public auditoriums. Thus far, no attempt has been made by local authorities to challenge the program design or push higher-level authorities to adapt it to better reflect local conditions and constraints.

[22] These less visible institutional factors are not limited to Jalisco. Studies by Judith Tendler of small business development and community

While a detailed review and presentation of each of these factors is beyond the scope of this paper, they are mentioned briefly here to show that development planning interventions, (including those targeting economic activities and actors) and their impacts, do not simply reflect good policy design, but are also shaped by the region's policy environment and governance systems. Market-based perspectives, to some extent, recognize this. The market, according to many economic analysts, is the most effective governance structure for allocating scarce resources. Where they limit our understanding of good planning practice and effective service delivery, however, is in their undervaluing of the complexities of learning and the process of continuous discovery.[23]

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health care in Northeast Brazil detail the importance of rewarding front-line workers for their achievements and innovation and developing a shared sense of purpose and meaning (Tendler, 1997). Mick Moore, in his study of Taiwan's irrigation management system, has also illustrated the importance of pre-existing communication channels and the close relationship between irrigation managers, recipient households and state evaluators (Moore, 1989).

[23] For a detailed discussion of the importance of incorporating institutional learning into the development debate, see Sabel and Reddy (2002).

Data -

Table 1

Jalisco's Industrial Sectors

Employment and Registered Owners by Industry, October 1998

Sector	*Employment*	*Registered Owners*
Mach. & Equip.	70,732	2,887
Food Processing	68,227	2,854
Plastics & Rubber	26,216	662
Shoes & Leather	21,123	1,156
Apparel	**20,398**	**1,283**
Chemical	18,197	432
Furniture & Wood	16,465	1,389
Minerals & Metals	14,900	779
Textiles	9,840	265
Publ. & Graphic Design	7,815	796
Construction	6,689	168
Paper Products	4,714	91
Petrochemical	1,011	17
Other Industries	12,519	607
Total	**298,846**	**13,386**

Source: Seijal, Instituto Mexicano del Seguro Social.

Table 2

Percentage of Total Garment Manufacturing Establishments

Firm size (employees)	*Jalisco 1998*	*National 1995*
Micro (1-15)	79.0	77.9
Small (16-100)	17.3	17.5
Medium (101-300)	2.6	3.1
Large (301 +)	1.1	1.5

Source: Seijal, Instituto Mexicano del Seguro Social.

Table 3

Percentage of Total Shoe Manufacturing Establishments, 1988

Firm size (employees)	*Jalisco*	*National*
Micro (1-15)	66	40
Small (16-100)	30	45
Medium (101-300)	3 [a]	12
Large (301 +)	--	3

[a]Figure includes both medium and large firms.

Source: Cámara de la Industria del Calzado del Estado de Jalisco.

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