

# **The Nucleus Approach**

**Promotion of Small and Medium Enterprises (SMEs)**

**and**

**Organisational Development**

**of Business Associations and Chambers**

**in Developing Countries**

**– An Overview –**

Kandy, Berlin, Dakar  
March 2006

---

**Rainer Müller-Glodde & Simone Lehmann**

[mueglo@tiscalinet.de](mailto:mueglo@tiscalinet.de), [simoneengesser@gmx.de](mailto:simoneengesser@gmx.de)

## 1. ORIGIN AND DISSEMINATION OF THE NUCLEUS APPROACH

The Nucleus Approach aims on the one hand at mobilising individual enterprises, especially SMEs, on the other hand at stimulating organizational development processes in business chambers and associations<sup>1</sup>. It has been designed and developed since 1991 within the framework of the partnership project between the Chamber of Crafts and Small Industries for Munich and Upper Bavaria, Germany, and several Brazilian chambers of commerce and industry in the federal state of Santa Catarina<sup>2</sup>. The national confederation of chambers of commerce, CACB, and SEBRAE, a SME promotion institution, took on the approach in 1999 and spread it all over Brazil to over 900 chambers of commerce and industry, involving at the end of 2005 about 4,500 Nuclei and 50,000 enterprises.

Chambers and technical cooperation projects in numerous other Latin-American countries experimented with the Nucleus Approach. In Uruguay, for example, there are presently some 100 Nuclei with close to 1,000 participants.

Since 2002, the Sri Lankan – German Economic Strategy Support Programme (ESSP) in Kandy, Sri Lanka – a GTZ-promoted programme for regional economic development and SME promotion –, successfully makes use of the Nucleus Approach, involving currently six chambers / associations. In addition, it is being applied in nine districts affected by the tsunami since 2005. In other Asian and African countries the introduction of the Nucleus Approach is in discussion.

Since the end of the nineties the Business Development Approach (BDS) is dominating as mainstream the economic development cooperation. Although the Nucleus Approach contradicts with its assumptions, deliberations and consequences some of the BDS ideas, it is being accepted and disseminated to some extent.

## 2. SME PROMOTION VIA FORMATION OF NUCLEI WITHIN CHAMBERS

Focal point of the Nucleus Approach are behaviour patterns of SMEs, which essentially are the same all over the world, regardless of cultural differences in developing and emerging countries. These patterns vary only with respect to their specific manifestation:

- The entrepreneur acts in isolation within his / her enterprise, not receiving impulses for innovations neither from within nor from without.
- Due to limited education and vocational training, he / she has never come to systematically undergo up-grade training or even to learn “how to learn” and to apply the learning in the enterprise.
- He / she considers other entrepreneurs from the same sector not only as competitors but even – to a differing degree in different countries – as personal enemies with whom he / she cannot neither possibly exchange know how and experiences nor cooperate.

---

<sup>1</sup> Chamber is defined as an aggregation of enterprises in one geographical mostly political / administrative unity. Associations are organized sector wise. In Portuguese speaking regions a “associação” – translated directly “association” – corresponds to a chamber. In many countries chambers and associations exist side by side having partially the same and partially different functions.

<sup>2</sup> The project was promoted by SEQUA gGmbH – Partner of the Industry = Foundation for Development and Qualification, Bonn, maintained by several confederations of the German industry, the German Technical Cooperation (GTZ) and the German Federal Ministry of Economic Cooperation and Development

- He / she deeply distrusts the government, promoting institutions, suppliers, customers and colleagues.
- He / she finds reasons for his / her unsatisfactory economic situation primarily outside the enterprise, not within himself / herself.
- He / she tends to develop a rather demanding attitude towards external support rather than focusing on his / her self-help potential and relying on his / her own initiative. This attitude is especially strong, for example, in Sri Lanka and in Mozambique.

Entrepreneurs do have objectively existing needs in order to improve their businesses. But as a consequence of the above mentioned characteristics their subjectively perceived situation does not automatically lead to a demand for business development services. Any SME promotion strategy focusing exclusively on the supply side will most probably not reach these entrepreneurs and presumably remain sub-optimal.

Therefore the Nucleus Approach aims at creating an organisational platform where entrepreneurs can start to open up, to better identify their problems, to compare themselves with others (benchmarking), to define their own demand for services, to develop self-confidence and to improve their enterprises.

Experiences with the Nucleus Approach in Latin America and in Asia show that this challenge can be met head on.

*The core problem is not the supply of services for SMEs – but the demand of SMEs for services.*

Vinícius Lummertz,  
SEBRAE Brazil

### 3. NUCLEUS: DEFINITION AND OPERATING MODE

A “Nucleus” is a circle of entrepreneurs (eg carpenters, hotels, exporters, women entrepreneurs) within a chamber or association, which is moderated, organised and accompanied by a chamber employed counsellor<sup>3</sup>.

The optimal size of a Nucleus is 12 to 30 entrepreneurs.

It is important that the groups are sufficiently homogeneous, with the members sharing daily life and work experiences but also sufficiently heterogeneous enough so as to allow the entrepreneurs to exchange their different ideas, problems and solutions.

Under the counsellor’s guidance the entrepreneurs start to

- identify their subjectively perceived problems;
- determine their causes;
- look for solutions within their group (motto “entrepreneurs counsel entrepreneurs”)
- start common activities in order to arrive at further reaching ideas and solutions. These can also be lobby activities in order to improve the economic framework conditions.

This results in the SMEs’ demand for services from bottom to top which in turn influences the service providers’ supply of services offered.

Tried and tested instruments are:

- to motivate and support SMEs in reducing mutual distrust and in raising awareness of common features and potentials by eg organizing visits and excursions;

<sup>3</sup> Compared to organisational structures in German chambers, a Nucleus can be considered a legally dependent guild within a chamber.

- to introduce participatory methods of learning, group work, planning and organisation, “action learning” – practitioners learn from practitioners –, benchmarking with the best colleagues’ companies
- to offer counselling services at workshops instead of seminary rooms;
- to promote up-grade training and practical training for entrepreneurs as well as their staff;
- to stimulate common events, purchases, marketing activities, expositions and trade fairs, tenders for orders;
- to initiate vertical and horizontal value chains through linkages between different Nuclei<sup>4</sup>.

The possibilities are virtually inexhaustible; see the catalogues of activities started by Nuclei.

#### 4. ORGANISATIONAL DEVELOPMENT (OD) OF BUSINESS CHAMBERS

Chambers are founded primarily on the basis of problems perceived in the entrepreneurial environment, which is to be improved by lobbying activities. In developing countries it is often not known that chambers have a second core function, i.e. providing services. This is what SMEs are most interested in because they expect and require an immediate return for their membership fees. If services not offered, most entrepreneurs are not interested in the chamber.

Efficient chambers and associations, being elements of the meso level, can play an important role in the development of local, regional and national economies. Projects of technical cooperation often focus their promotion on equipment, on subsidizing running costs – especially the salaries of fulltime employees, and on training of fulltime and honorary staff. The assumption is, “Those who know more will act better.” However, due to the institutionalised rotation of the leadership in chambers this approach to their promotion is limited in terms of sustainability.

The hypothesis of the Nucleus Approach is that sustainable OD change in chambers occurs only if its members request qualitative and quantitative performance and results from fulltime and honorary staff, if they claim ownership of the chamber and if they actively engage themselves in its design.

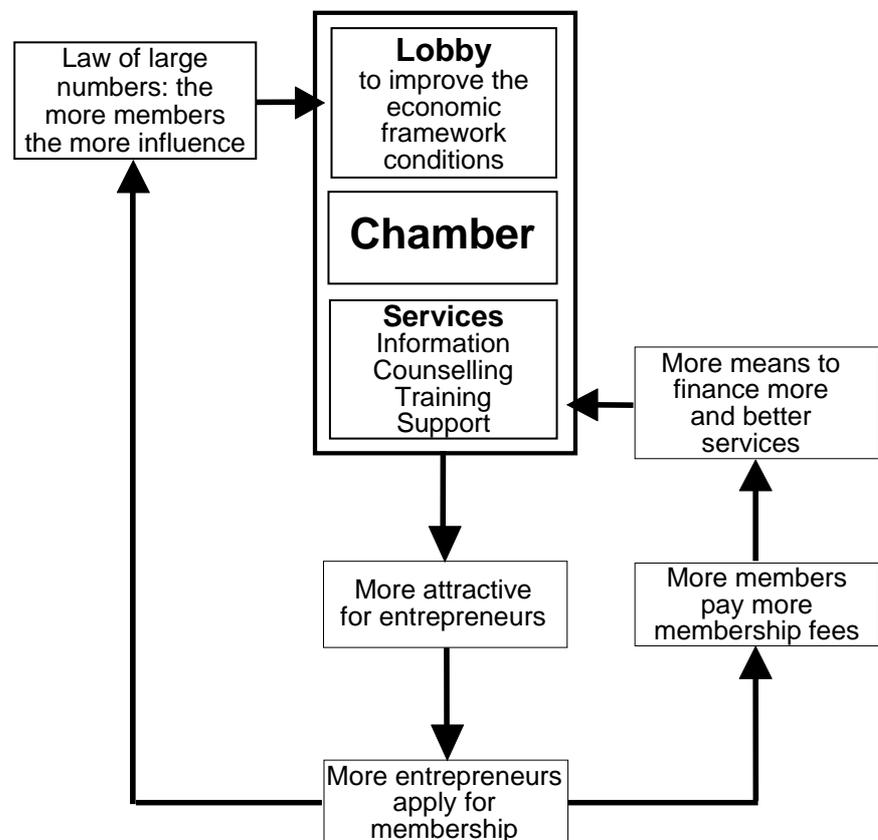


Figure 1: Development logic of a business chamber

<sup>4</sup> The bibliography presented in chapter 8 contains catalogues of activities started by Nuclei.

Thus, the Nucleus Approach aims at influencing the relations among its board of directors, staff and members. A single member usually has no forming influence on the chamber. Members organised into a Nucleus, however, influence the chamber directly as well as indirectly. Thus, a constructive field of tension develops within the organisation: Once the Nucleus entrepreneurs experienced a certain performance level of fulltime and honorary staff, chances are that they will insist on this level to be maintained also after personnel changes. This means that members, not external donors, provide an essential stimulus for the activities of a chamber and its organisational development.

- The foundation of Nuclei often is the first real service a chamber provides for its members. With Nuclei, the chamber becomes more attractive for SMEs and consequently can increase their membership.
- Nuclei with their counsellors require a new type of staff in the chamber. This results in new leadership requirements at management level.
- Nuclei bring along new demands to the board's and the management's quality and quantity of performance both in the field of lobbying and in service provision.
- New activities lead to changes in the public relations work.
- Growing membership requires organisational changes.

From many small changes, all with their inherent dynamics, gradually an organisational change process emerges which does not just lead to simple adjustments of the governing paradigm but results in a new one: Now the chamber no longer acts as a "business club" but as an efficient lobby institution and professionally managed service provider.

This change process must be designed with a long-term vision in order to have sustainable impact. It often requires an entire new generation of fulltime and honorary actors.

## 5. IMPLEMENTING THE NUCLEUS APPROACH

The following factors are relevant with regard to implementing the Nucleus Approach:

- Chambers are not open to organisational development. They have up to 150 years old traditions and its representatives are self confident as local elite. They often know only the prevailing paradigm of a "business club". A chamber as a professionally managed

### BDS versus Nucleus Approach?

In the international BDS discussion some argue that chambers should not supply services themselves but leave it to commercial providers who could deliver them more efficiently. The following arguments show a different view:

- In general, an enterprise does not contact a commercial provider at first. The risk is too high looking at the service costs in relation to sales and profit. It is in addition difficult for the entrepreneur to identify suitable specialists, because these tend to do what they know to do rather than what is needed – what could be something completely different.
- The counselling of chambers focuses on the one hand on many small issues, on the other hand on accompanying search processes to identify business problems, its causes and impacts. Sometimes it is not very well structured and an unpurposeful picking in the fog. A good business counsellor serves as sparing partner in this process who supports the entrepreneur by confirming, doubting and stimulating new ideas. In the case of bigger problems a commercial BDS provider might be contracted as a second step.
- Therefore, chambers and commercial BDS providers are not competitors but supplement each other: On the one hand the chambers offer such services which are not offered adequately by commercial providers for economic reasons in sufficient quality and quantity. (e. g. counselling). On the other hand chambers follow the rule not to compete with their own members – inclusive BDS providers.
- "What does not cost anything has no value!" Chambers do not provide their services free of charge. The counselling costs are covered by the membership fee. Therefore there are no barriers for the entrepreneurs to use the services offered.

lobby and service institution is not imaginable and thinkable<sup>5</sup>. When a technical cooperation project confronts them with the demand to change in the scope of a project planning process they – openly or disguised – will turn away.

This is different with Nuclei. It is relatively easy to mobilize chambers in their favour – without that the entrepreneurs becoming aware that with Nuclei seeds are sown to start of organizational change processes. Therefore, it is neither necessary nor advisable to illustrate the need for change to chambers. The changes come about automatically after the introduction of the Nucleus Approach, which offer many possibilities for interventions.

- In few developing countries it is possible to identify counsellors who are both well qualified and as well financially affordable by chambers. However, when beginning to implement the Nucleus Approach, “low level” business counsellors do well as long as they have a strong personality as well as social intelligence and are willing to learn. They may be trained to moderate working groups within the frame of a workshop lasting only a few days and a consecutive on-the-job coaching. With this, they wield very fast an instrument that allows them to survive in the Nucleus and to prove themselves to the entrepreneurs. They have to acquire the relevant professional know-how over time.
- Any approach to promoting chambers achieves sustainable impact only if it is designed in a way that allows the chamber and the entrepreneurs to finance the developed services themselves some day. This holds true for the Nucleus Approach. It is a universally applicable – unwritten – rule that some 100 to 200 membership fees are required in order to cover the costs of a counsellor. Experience shows that a good Nucleus counsellor can manage up to 10 Nuclei (less than 10 if he / she in addition provides counselling to individual entrepreneurs) with 12 to 30 members each, i.e. some 120 to 300 entrepreneurs.
- The Nucleus Approach is not directed towards a single chamber but to groups of them, at least three or better more. An essential, speeding up element in the approach is the networking between the chambers and the Nuclei as well as a continuous benchmarking among them. It shall become a norm for chambers to maintain Nuclei and for SMEs to engage themselves in Nuclei. Should other chambers, due to dissemination activities, gain an interest in the Nucleus Approach – possibly even at national level, chances in-

**Advantages of the Nucleus Approach for technical development projects:**

- Strong acceptance by political partners because of fast results and impacts
- Chambers can train their own staff with the support of a project rather than rely on project staff that will not be available nor affordable after the project has phased out. This leads in addition to lean technical development project structures.
- High chances for sustainable impacts
- Because of the successful implementation of the Nucleus Approach in several countries the “product” is fully developed: All implementing tools including monitoring and evaluation modules as well as functioning examples are available. This leads to even faster partner acceptance.
- Accountable results on micro, meso and macro level

---

<sup>5</sup> See Müller-Glodde, Rainer: Wie plant man, was sich nicht denken lässt? (How to plan what is not thinkable?) In Drehscheibe, GTZ OE 403, Organisations-, Kommunikations- und Managementberatung, No. 9, October 1997, pp. 3 – 6 – the bibliography mentioned in chapter 8 contains a complete literary list.

crease that project interventions will have a sustainable impact<sup>6</sup> even after external support has been phased out.

- Working simultaneously with several chambers allows the project staff to align the intensity of their interventions to the absorption capacity of the individual chamber. In other words, the project staff can work with very small and weak chambers which are little differentiated and until now possibly relied on honorary staff only, but at the same time it can work with larger ones which command more differentiated organisational structures.

## 6. IMPACT OF THE NUCLEUS APPROACH

Impact analyses in Brazil, Uruguay and Sri Lanka<sup>7</sup> repeatedly show:

- The mutual perception of Nucleus entrepreneurs shifts considerably from “competitor” and “enemy” to “professional colleague” and “personal friend” since participation in a Nucleus – a climatic improvement and therefore an advantage in the location.

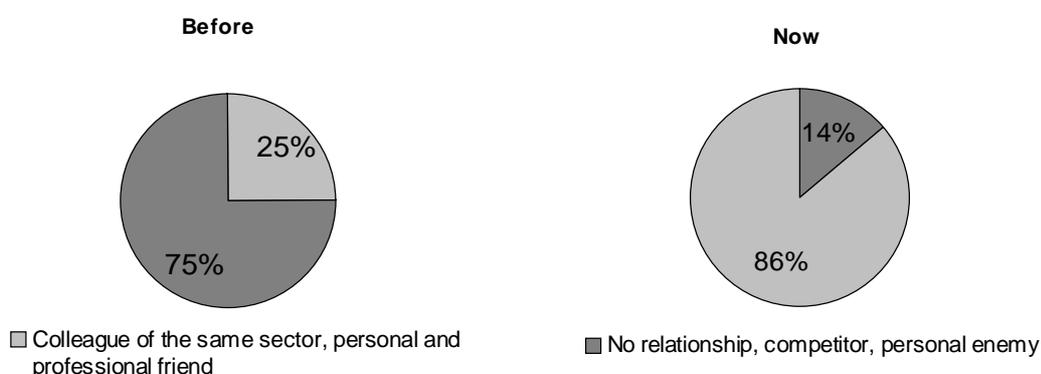


Figure 2: Relationship between the SMEs before their participation in the Nucleus and now

- Chambers are increasingly regarded as organisations open to SMEs, efficient service providers and lobbying organizations.



Figure 3: SMEs' perception about the chambers before participating in a Nucleus and now

<sup>6</sup> The Brazilian partners noticed step by step that this was not about copying the German chamber system but to develop their own. So the originally “German” project changed into a Brazilian one. This ownership was a precondition for SEBRAE and the confederation of the chambers, CACB, to take on the approach and disseminate it nationwide.

<sup>7</sup> ESSP interviewed in 2005 490 entrepreneurs, out of which 450 participated in Nuclei. The data quoted in figures 2 to 5 show the results of the survey. These are very much in accordance with analyses made previously in Brazil.

- The chambers become more member-oriented and more efficient in their organisation. They increase the membership considerably after the introduction of the Nucleus Approach, as the example of Sri Lanka shows:

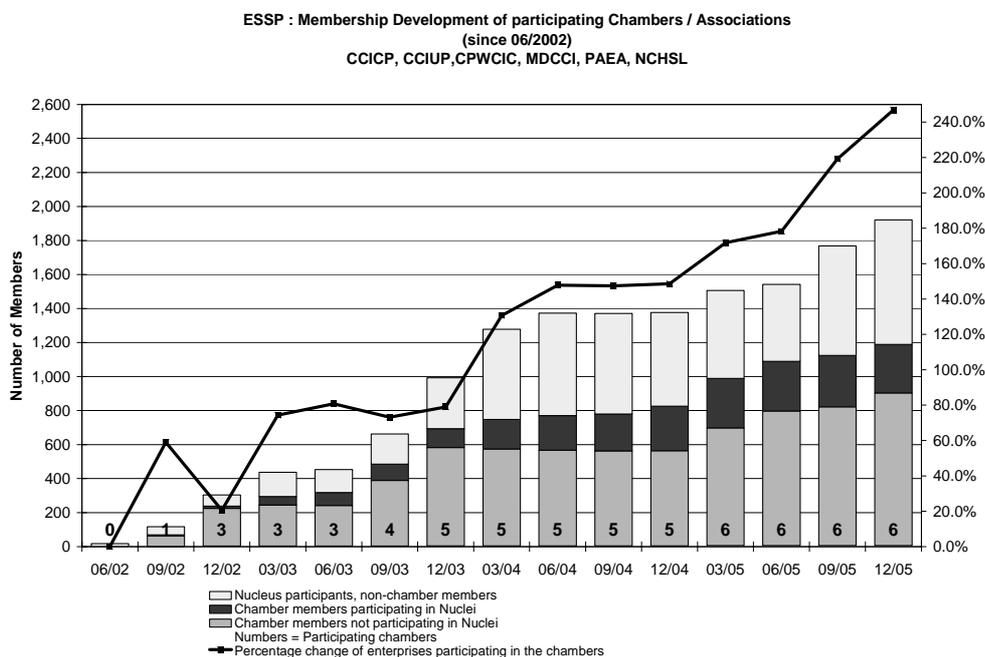


Figure 4: Development of the Sri Lankan chamber membership and the Nucleus participants

In reference to the membership of the individual chambers when they started to implement the Nucleus Approach the number of entrepreneurs reached by the chambers increased by 250%. The permanently increasing white and black parts of the columns show the Nucleus member development whereas the more or less stagnating grey parts show the chamber members who are not Nucleus members.

- The entrepreneurs introduce many changes to their enterprises and subjectively perceive their enterprises as having improved after the introduction of the Nucleus Approach. The entrepreneurs are more courageous and optimistic regarding their own enterprise, even though their environment may be deemed rather pessimistic.
- Under the umbrella of their chamber, Nuclei can, with lobbying activities, successfully influence their environment, which includes private as well as public institutions.

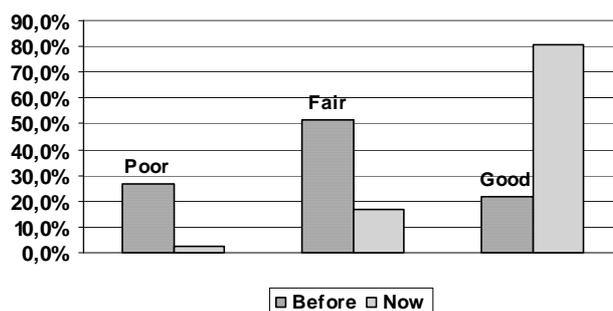


Figure 5: Estimation of the enterprises by the SMEs before and after their participation in a Nucleus

The biggest surprise for SMEs is that the development of their enterprises does not require finances – grants or loans – nor machinery to start with but ideas, know-how, organisation and leadership.

This shows that the Nucleus Approach with its assumptions, regarding entrepreneurs and chambers, its logic, organisation and impact is taking a hold.

## 7. FINANCING / SUBSIDIZING NUCLEI AND ASSOCIATIONS

The chambers cooperation project in Brazil subsidized neither individual enterprises nor Nuclei or chambers<sup>8</sup>; if the entrepreneurs are convinced of something then they will find ways of financing it. This, however, is different in Sri Lanka, where there is prevalence – boosted by government and donors – to expect grants (“recipient mentality”). But even there the entrepreneurs have arrived started saying “We do not bother about the subsidies. We need the Nucleus!”

The question is how and what to subsidize on the basis of which reasons – all the while reinforcing, not counteracting the orientation of the Nucleus Approach.

- Subsidizing individual entrepreneurs is in diametrical contrast to the Nucleus Approach and should be done under no circumstances. On the one hand, having access to individual subsidies automatically reduces the entrepreneurs’ interest and motivation to engage themselves in a Nucleus and chamber; on the other hand it undermines their self-help efforts. They will not do what they think is good for the enterprise but what they think will be subsidized.
- Subsidizing Nucleus activities can be argued for as a means of motivating the initially distrustful entrepreneur to try out participation in a Nucleus by reducing the barriers to entry as low as possible. With agreed upon promotion guidelines defining the rights and obligations of Nucleus members, chambers and the project, activities can be promoted in the field of training, consultancies, visits to enterprises and other institutions relevant to the entrepreneur, marketing, fairs and expositions and possibly also investment into hardware up to certain limits. Even small activities can be subsidized in a fast way with a decision taking board that includes representatives of the involved chambers. Easy to handle standardized forms for applications, contracts statements and reports keep the administrative costs relatively low.<sup>9</sup>
- Subsidies shall gradually decrease (exit strategy) in expectation of the entrepreneurs’ growing awareness of the importance of the Nucleus for them, so that they are prepared to finance the activities by themselves or search for other financial sources.
- Performance oriented subsidization of chamber overhead costs: The establishment of Nuclei involves additional costs (personnel, physical infrastructure etc.), which initially the chambers are not able to cover.

It has been successful to subsidize according to the motto “subsidies against performance”. In Sri Lanka, the criteria “number of active Nuclei” and “number of Nucleus members paying membership fee” worked well.<sup>10</sup>

This system has a further advantage for the project in that current costs do not have to be

---

<sup>8</sup> SEBRAE later changed this during national dissemination of the approach by temporarily financing costs of the chambers.

<sup>9</sup> ESSP agreed with the Sri Lankan chambers that these or the Nucleus entrepreneurs prefinance the activities. The project pays the subsidy only after the execution of the activity against presentation of the report and the original receipts. This dispenses with the management of advance payments, which as a rule causes a lot of administrative work.

<sup>10</sup> An additional criterion might be the membership fee, so as to exert pressure for introducing a more efficient membership fee system which would contribute to the chamber’s own funds while taking the members’ differing economic strength into account (In Sri Lanka, for example, up to now all members pay the same fee, like in a club).

accounted and paid for, nor controlled by the project staff – a process that easily invites manipulation. Only the number of Nuclei and their members needs to be monitored.<sup>11</sup>

## 8. FURTHER INFORMATION ABOUT THE NUCLEUS APPROACH

The bibliography “Promotion of Business Chambers / Associations and SMEs in the Context of Projects of Technical Cooperation “ contains many documents regarding the promotion of chambers and the Nucleus approach, in German, English, Portuguese, Spanish and (few) in French, Tamil and Sinhala. Available on CD from the authors.

Some websites:

Sri Lanka	GTZ-ESSP and GTZ-MSME Project with many operational documents	<a href="http://www.NucleusSL.com">www.NucleusSL.com</a>
Brazil	Associação Comercial e Industrial de Joinville	<a href="http://www.ACIJ.br">www.ACIJ.br</a>
	Associação Comercial e Industrial de Uberaba – best website of a chamber running Nuclei	<a href="http://www.NucleosdeUberaba.com.br">www.NucleosdeUberaba.com.br</a>
Uruguay	Associação Comercial de Pará SEBRAE	<a href="http://www.acp.com.br/empreender.htm">http://www.acp.com.br/empreender.htm</a> <a href="http://www.sebrae.com.br/br/cooperecrescer/nucleossetoriais.asp">http://www.sebrae.com.br/br/cooperecrescer/nucleossetoriais.asp</a>
	Publication of FACESP – Federação de ACIs de São Paulo	<a href="http://estatistica.facesp.com.br/Revista/empreender.pdf">http://estatistica.facesp.com.br/Revista/empreender.pdf</a>
	Red ProPymes – formerly GTZ	<a href="http://www.redpropymes.com.uy">www.redpropymes.com.uy</a>

### Simone Lehmann

ESSP Senior Adviser SME Promotion

Business administrator: She worked in Germany in a bank for the promotion and development of enterprises. Since 2001 she is being involved in the ESSP and introduced the Nucleus Approach in Sri Lanka together with Rainer Müller-Glodde.

### Rainer Müller-Glodde

Freelancer, accompanies since 2002 as intermediate counsellor the ESSP and the PMSME.

Banker, economist and business administrator. He worked for a federation of social institutions and in Germany and in West Africa for a NGO. Since 1990 he is involved in the development of the Nucleus Approach in the framework of the partnership project between the Chamber of Crafts and Small Industries for Munich and Upper Bavaria and Brazilian Chambers of Commerce and Industry / Fundação Empreender, Joinville.

---

<sup>11</sup> In Sri Lanka the overhead cost subsidies of six chambers with about 1,000 Nucleus enterprises amounted to around 12.000 € in 2005.