GROUP ENTERPRISE MANAGEMENT:

A Field Training Guide

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

A FIELD TRAINING GUIDE FOR GROUP ENTERPRISE MANAGEMENT

Prepared for the People's Participation Programme,
U. N. Food and Agriculture Organization, Rome

by Patricia Norton and Norman Uphoff
for the Rural Development Committee,
Cornell University, Ithaca NY

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FOREWORD

This guide is written for Group Promoters who are working with PPP groups in a growing number of countries around the world. It could easily have been five times longer, but we have tried to keep it brief. There is no way a guide can contain all the answers that self-help enterprises need. What we offer is a method that should help GPs to help groups to think through in a systematic way the various problems and questions that these enterprises face.

The first purpose of this guide is to help Group Promoters develop their thinking about group enterprises, so that they have a better strategic understanding of what is required. The basic objective of the guide is to help group enterprises themselves to improve their planning, management, evaluation and other skills for operating their businesses.

Each section of the guide concludes with a set of questions which Group Promoters should discuss with PPP groups after conveying as best they can the main ideas presented in each section. Discussions with the group should strengthen group members' grasp of how to solve the various problems of group enterprise development. The discussions should at the same time expand GPs' knowledge of the practical difficulties which PPP groups face.

This guide should therefore lead to many kinds of learning. Rather than try to present universal solutions, it seeks to help people come up with answers which their own experience, intelligence and determination will make possible and which are suited to their own circumstances.

1. INTRODUCTION: GROUP ACTION AND SELF-RELIANCE

What is the purpose of group enterprise development? Different reasons can be given, but usually they will include some combination of these goals:

-- Members will1 desire some benefits for themselves and for their families.

-- By working together, members may produce benefits for each other, since people usually can gain more by working together than they could working by themselves.

-- Members usually like to create benefits for the community, making it a happier, healthier, safer, prouder place to live, because this benefits everyone.

Members need to agree on their reasons for wanting to develop a group enterprise. If persons desire benefits only for themselves and do not care about others, this will weaken not only the group but also its enterprise. Through discussion, it should be possible to reach agreement on objectives and benefits that are desired by members.

An enterprise is started for some purpose, such as to earn income for its members. Being successful in chosen activities is the first requirement of any enterprise. But the skills and cooperation developed to make an enterprise successful can help people tackle other problems that they face. Many grassroots organizations have found that the benefits of group action go beyond the immediate task for which a group was formed. Once people have greater management, communication, leadership and other capabilities, they can deal more effectively with other difficulties that people have.

For group enterprise development, therefore, both the group and the enterprise should be strengthened together. One is more social and the other more economic, but the two are linked. What weakens the group will weaken the enterprise, and whatever undercuts the enterprise can undercut the group.

Some groups learn from difficulties and become even stronger after some initial failures, so enterprise shortcomings do not necessarily lead to group collapse. But we know that the strength or weakness of a group and enterprise generally go together. We are therefore not dealing just with a business venture or just with a friendly association. Self-reliance gains strength by tying the two together.

Several different objectives may determine what activities a group decides to undertake. It is important that members agree on these in advance on the basis of group discussion:

-- profits - to be distributed among members in proportion to the labor they have contributed; where not all have contributed equally to the enterprise's land, capital or equipment, some compensation can be paid for contributing these factors of production; where profits are the only objective, the goal will be to maximize these.

-- utilization of unused resources - certain land or labor may be underutilized and a reasonable objective can be to generate some income, if not a maximum one, from putting these resources to productive use.

-- social benefit - some activities enhance the welfare of others, such as childcare for working mothers, selling essential commodities at cost without a profit mark-up, improving nutrition, or a teaching group's members new skills.

Group enterprises are most likely to emphasize the first goal, but the second and third are legitimate objectives as well. Few groups are likely to stress only the second or the third, because creating streams of income wherever possible is attractive. Families need income to meet not just their consumption expenditures but also to make investments in children's education, to pay medical expenses, to contribute to community improvements, etc.

To be successful, a group enterprise must continually identify and solve the various problems that it will confront, particularly the most important ones. It is impossible to know in advance all of the difficulties that a group must deal with:

-- how can the group get access to a new technology it has read about in a newspaper?

-- how can it get its books audited if this is required?

-- how can it guard its products if theft becomes a problem?

-- what if young people, as potential members, will not participate because they feel they have no role or voice?

The conditions under which groups operate are always changing:

-- a group's supplier of raw materials can go out of business,

-- increased imports may compete with a group's products,

-- persons with key skills for maintaining equipment or keeping books may get employment elsewhere and move away,

-- new taxes may be levied by the government, or

-- new competitors may undercut the group's profitability.

Problem-solving is thus the central task of group enterprise management because one should always expect problems. But one should ask whether a group is always confronted by the **same old problems?** Because it has not dealt effectively with them? Or is it faced with an ever-changing set of **new problems** to be resolved?

Learning how to identify, analyze and solve problems in a systematic way is the single most important aspect of group enterprise development. Problem-solving can be done when there is a crisis, or it can be made part of the regular, on-going operation of the group enterprise. The latter is better because then problems are:

-- identified or anticipated early.

-- approached with more information.

-- taken up before they become overwhelming.

-- pursued systematically and persistently, and

-- kept in perspective.

Problem-solving involves learning, both learning specific solutions and how to find solutions. The best approach to group enterprise management is to formulate plans but to recognize that they should be implemented taking account of changing circumstances and new information. What are most important are the goals of the group. How they can be best achieved is a matter of judgment and frequent review. The group should periodically reconsider and reformulate its plans based on members' experience and their critical thinking.

Members need to be concerned with the profitability of their enterprise, but also with its sustainability. Will it be successful not just for this year, but the next year, and the next? This may require some investment or reinvestment to improve equipment or to build up working capital.

Members also need to be concerned with equity and fairness, since without these the enterprise will not last for a long time. It is a well-established principle that benefits be distributed in proportion to the contribution people made to creating those benefits. But achieving fairness requires deliberate decisions. Groups can decide that giving larger shares to key contributors or to disadvantaged members is equitable and fair.

Openness and accountability are essential for managing group enterprises. Decisions should be made in a public way, with agreement on any delegation of responsibility for making decisions for the group. It should be clear who will take initiative to reconsider decisions if their results are unsatisfactory.

Groups should develop a broad pool of skills and experience - through committee assignments, sharing of responsibility, rotation of offices, etc. This will strengthen capacities for self-management. It is expected and appreciated that some members will take greater initiative and responsibility than others within the group. But there is no substitute for the active and broad participation of all members in the operation of their group enterprise in various, appropriate ways.

QUESTIONS FOR DISCUSSION WITH GROUP MEMBERS

(to be adapted by GPs as appropriate for specific groups)

-- WHY DO MEMBERS OF THIS GROUP WANT TO START A GROUP ENTERPRISE? OR WHY DO THE GROUPS IN THIS INTER-GROUP ASSOCIATION WANT AN I.G.A.? WHY MIGHT OTHER GROUPS WANT TO FORM ONE?

GP should seek specific responses, identifying what are the goals for the individual members and their families, which are goals for the group, and which if any are for the community. Try to get agreement on what combination of goals is judged appropriate for the group. GP may introduce examples of other groups' goals to stimulate ideas.

-- HOW COULD THIS GROUP STRENGTHEN ITSELF AS A GROUP? OR HOW COULD THIS I.G.A. STRENGTHEN ITSELF AS AN I.G.A.? For example:

-- Should the officers of this group be elected or should they be chosen by consensus? If elected, should it be by secret ballot or by show of hands?

-- Should officers be chosen for fixed terms? Should there be rotation of officers so nobody has responsibility for a long period of time?

-- How should the funds of the group be managed and reported?

-- What should be done if anyone thinks funds have been misused?

-- What should be done if one or more members think there is too much short-rudecision-making and not enough planning?

-- What kinds of records of meetings, expenditures, etc. should be kept? Why? By whom? Where? For how long? Should payment be made for these services?

-- HOW COULD THIS ENTERPRISE STRENGTHEN ITSELF AS AN ENTERPRISE? For example:

-- What should be done if a member thinks that a wrong decision has been made about something like selling price, planting schedules, not putting enough money aside to replace worn-out machines, buying a new kind of machinery without enough information, etc.?

-- What should be done if some members think that the assignment of work is not fair or does not utilize members' skills in an effective way? What is a fair way of assigning work?

-- How should the enterprise go about getting technical skills if training (such as in motor maintenance) is available? Should one or two get the training and they try to train the rest? Should all get the training? Should the few who get the training be remunerated more for their special skill? Should someone from outside the group be hired?

-- What should be done if a member thinks some others are dishonest, that is, are not working as hard as the rest or are taking for personal use some of the group's tools or produce?

2. PROBLEM-SOLVING: A SYSTEMATIC APPROACH

Problems are not evidence that a group enterprise has failed or is failing. Problems are to be expected. But if group members find that the same problems are burdening their enterprise year after year, this suggests that it is failing or will soon fail. Experience with grassroots people's organizations shows that the best protection against decline is to adopt a systematic problem-solving approach.

There are various ways for following through on such an approach. We introduce here a five-step strategy for problem-solving that will be elaborated in the following chapters. Following these steps and taking them seriously will greatly increase the likelihood that an enterprise can meet its goal of profitability and any other goals.

Groups may modify this problem-solving system once they have understood its purpose. There is nothing magic in having five steps in problem-solving, instead of four, or eight. If breaking the problem-solving process down into some other number of steps makes sense to members, this is all right. What counts is the group's commitment to work seriously and systematically on solving problems that are of greatest urgency and that can be tackled effectively. What should be learned from this manual is an approach to strengthening enterprise performance, not some rigid process to be followed.

Also, if group members can make the system more understandable by using different words, they should (usually the English terms will need to be translated into the people's own language anyway). Maybe combining some steps or separating others will increase the likelihood that they will regard the system as their own and will use it. What is important is that the group understand and make a firm commitment to the principle of always attempting effective problem-solving.*

*This particular system was developed working with grassroots farmers' organizations in Sri Lanka between 1981 and 1985. A similar system was developed by J. Tully, "Aims and Methods in Extension," Journal of the Australian Institute of Agricultural Science (1973) and applied in Thailand; see Peter W. C. Hoare, "The Role of Extension in Northern Thailand," in K. W. Easter et al., Watershed Resources Management. Westview Press (1986). Essentially the same steps were outlined by John Rouse in a FAO/PPP workshop in Koforidua, Ghana in June 1986.

STEP 1: IDENTIFYING PROBLEMS AND SETTING PRIORITIES

The first step in any problem-solving process is to identify through discussion: (1) what are the most important problems that the group faces, and (2) what are those it can do something about. These two sets of problems may not overlap.

-- Some *problems are very important but are not subject to solution at the local level.* For example, an increase in the price of fuel may affect an enterprise adversely, but if the price is set nationally, no local group can change it. However, if the group could discover some seller of fuel who will give a discount if it buys in large amounts, and The group has a way to store fuel, the problem has at least a partial solution.

-- *Other problems may be easily solved but make little difference for group performance*. For example, getting all members to begin work at the same time may be only a small problem that could be remedied by ringing a bell loudly 15 minutes before starting time. However, if some members continue to come late and this lowers the morale and output of those who came on time, the problem could become important and require some solution.

How significant and how solvable a problem is has to be decided by the group according to its own situation. Problems that are both significant and solvable are appropriate to be selected as priorities.

-- If something is significant but unsolvable at the local level, a way must be found around it, but the group should not waste its time trying to "solve" that problem directly, whereas:

-- If a problem is minor but easily solvable, the group should simply correct it and not treat it as a priority.

The group's mental, physical and financial resources should be focused on those tasks that can be accomplished something is significant but unsolvable at the local level, a way must be found around it, and will substantially improve or protect the operation of the enterprise.

Priority problems thus are things like new technologies, products or opportunities, or existing obstacles, shortages or opposition that could be capitalized on and overcome to make the enterprise more profitable and secure.

A limited number of priority problems should be identified for solution --two, three or four. To tackle more will scatter efforts, and nothing effective will be accomplished. This will demoralize the group and can contribute to enterprise ineffectiveness. Those problems whose solution is most urgently needed and most apparently attainable or those problems whose solution makes solving other problems easier should be focused on first.

STEP 2: DECIDING ON INFORMATION NEEDS AND ON STRATEGY

Once the group is agreed on which problems it most needs to solve, it should discuss what group members know about each problem, and what more they ought to know. Problems cannot be solved without information. Whether fuel could be purchased at a lower price, or whether a bell could be heard by all members is obvious information that could help a group deal with the problems described above. The group may need to undertake some investigation or some experimentation to gather appropriate information.

Getting such information can be assigned to different members. Problem-solving often must be done at successive meetings, since making hasty decisions without adequate information would doom group efforts to failure. Sometimes expert sources must be consulted, such as agricultural extension agents on protection of plants against disease, or mechanics on the reliability and costs of operation of different kinds of pumps. Since a group's economic profitability is at stake, it is worth investing time and money in getting the best possible information for formulating strategy and then making plans.

Once it has the necessary information, the group can consider different ways of solving each problem. If the cost of transporting goods to market is keeping agricultural production from being profitable, there are a number of alternatives:

-- Get fuel more cheaply, as suggested above.

-- Find some other means of transport that uses fuel more efficiently.

-- Contract with someone else for transportation services if someone can be found who will provide these less expensively.

-- Sell produce at the farm gate, letting buyers bear the cost of transportation.

-- Maybe grow a different crop that can be stored and then transported when costs are lower.

If something like shoe production is being held up by lack of leather as raw material, a group might identify these alternatives:

-- Get a loan to purchase larger stocks of raw material whenever it becomes available.

-- If shoes are being sold to large purchasers or wholesalers, enlist their help in getting more regular raw material supplies so they can ensure themselves a constant flow of products.

-- Investigate making shoes from non-leather materials.

-- Change lines of production to produce goods for which the supply of raw materials is more assured.

There are usually a number of different ways by which a particular problem might be solved. Although problem-solving is presented here in a logical sequence, in practice groups move back and forth between steps. After starting to formulate a strategy, a group may realize that more information is needed to make an informed choice. In that case, it should go back in the sequence and gather more information.

When the group is satisfied that it has enough information and has considered as many alternative strategies as members can think of, it should *choose whichever appears to be the most promising* - the one likely to give the best, quickest, cheapest, most reliable results. The formulation and choice of strategies is crucial. It directs the group's thinking and resources in a particular direction. This direction can be changed if it proves too slow, difficult or costly, but the first choice shapes subsequent events. It should be made with full discussion and understanding of all members, since their well-being and resources are at stake.

STEP 3: PREPARING A PLAN OF ACTION

Once there is agreement on the strategy to be followed for solving a particular problem, the next step is to have a plan of action. This may or may not be written down in a formal document, but there should be minutes or other records made of what was agreed. A plan is a specification of WHO will do WHAT, WHEN, WHERE and HOW.

If cheaper fuel is to be bought from other sources, it needs to be clear who will sign an agreement with that source - when and how. If a new product is to be produced, a more complicated plan is needed, and perhaps a whole new information gathering effort must be undertaken to prepare for such a change. Things like raw material or seed availability, market opportunities, costs of production and many other things need to be known and then translated into specific assignments - to procure seeds, to obtain other inputs at acceptable prices, to ensure access to markets, etc.

Planning for group enterprises can be relatively simple, but it must be as complete as necessary, and it must be specific, making clear WHO had WHAT responsibilities. The plan, though it may have been prepared by one or a few members, should be agreed to by all, either by consensus or by vote. Everyone needs to know what is expected of him or her. Procedures for coordination of activities and sharing of information should be spelled out so work can go ahead without delays or misunderstandings.

STEP 4: IMPLEMENTING THE PLAN

If the group's plan has been prepared based on good gathering of information and agreement within the group, this can be the simplest step in problem-solving. This is not to say that implementation is an automatic carrying out of prior decisions. The conditions in which group enterprises operate are always changing. It is foolish to think group members should execute whatever was decided before, no matter what the conditions. Attention needs to be paid to changing circumstances and goals. Implementation is discussed more in Chapter 6.

STEP 5: EVALUATING PROGRESS IN PROBLEM-SOLVING

The group should periodically meet to assess how it is progressing with each of the problems considered "priorities" for solution. The sequence of consideration is as follows, *reversing* the sequence followed up to this point:

-- Has the PLAN been implemented? If not, why not? Should it be modified? Should someone else be given certain assignments? Should certain actions be repeated to see if they are more successful a second or third time? Should the plan be changed? If so, how?

If the plan looks reasonable and lack of success is not attributable to the plan or to its implementation, the group re-considers its strategy.

-- Was the STRATEGY the right or best one? Would some other strategy be more promising, in light of what is known now?

If a new strategy is chosen, the group proceeds to Steps 3, 4 and 5 to carry it out. But if no better strategy is evident, attention gets shifted back to the information base of decisions:

-- Was the INFORMATION adequate? Is more known now about the problem and alternative approaches to solving it?

If new information can be obtained, the group works through the cycle from that point, reformulating strategy and then re-doing the planning and implementation. Sometimes the problem itself needs to be reconsidered:

-- Was the PROBLEM correctly understood and identified? Is it still a problem? (Sometimes problems can solve themselves or can become less important over time.) Should this problem be defined differently or thought about in new ways?

During evaluation, the group should be prepared to drop problems or change priorities based on current information and thinking. As some problems are set aside or given lower priority, others will be added or given higher priority. A group should always know <u>which priority</u> problems it is working on. But these will change over time as some problems get resolved and new ones are identified. It is usually wise to concentrate on just one or two selected problems at a time.

QUESTIONS FOR DISCUSSION

-- WHAT ARE SOME EXAMPLES OF PRIORITY PROBLEMS THAT THIS GROUP ENTERPRISE FACES AT PRESENT?

-- ARE THESE CONSIDERED PRIORITIES BECAUSE THEY HAVE VERY GREAT CONSEQUENCES FOR THE ENTERPRISE'S MAINTENANCE AND PROFITABILITY? OR BECAUSE THEY ARE THOUGHT TO BE SOLVABLE?

-- HOW WOULD THE GROUP GO ABOUT REACHING AGREEMENT ON A SMALL NUMBER OF PROBLEMS THAT IT WILL TACKLE AS PRIORITIES PROBLEMS NEEDING SOLUTION?

-- WHAT KINDS OF INFORMATION CAN MEMBERS THINK OF THAT ARE NEEDED TO SOLVE SOME OF THE PROBLEMS THEY HAVE IDENTIFIED? HOW CAN SUCH INFORMATION BE GOTTEN?

-- TAKING ONE OF THESE PROBLEMS, HOW MANY DIFFERENT WAYS OF SOLVING IT CAN MEMBERS THINK OF? [The more different strategies a group can suggest, the better, as this will help the group to see that members should not just accept and work on the first strategy that someone proposes.

-- IS EVERYONE CLEAR ABOUT WHAT A PLAN IS? WHY IS A PLAN IMPORTANT? HOW WILL A GROUP'S PLAN DIFFER FROM A GOVERNMENTS DEVELOPMENT PLAN? OR FROM AN INDIVIDUAL'S PLAN FOR EDUCATION?

-- WHAT ARE SOME WAYS IN WHICH A GROUP MAY FAIL TO FOLLOW ITS PLAN? WHAT COULD BE SOME CONSEQUENCES OF SUCH FAILURES FOR THE GROUP? FOR THE ENTERPRISE?

-- HOW MANY KINDS OF REASONS FOR FAILURE OF PLAN IMPLE-MENTATION CAN THE GROUP THINK OF?

-- HOW OFTEN SHOULD A GROUP MEET TO EVALUATE ITS PROGRESS IN SOLVING PRIORITY PROBLEMS? [There is no single right answer. Each group should reach some agreement on how much effort to put into problem-solving. This will show up in the frequency of its meetings to evaluate its progress and make changes in plans, strategies, priorities, etc.

-- DOES THE SEQUENCE OF FIVE STEPS DISCUSSED HERE NEED TO BE FOLLOWED EXACTLY? First step, then second step, etc.?

-- OR SHOULD THE GROUP INSTEAD FOLLOW A CONTINUOUS PROCESS OF GOING BACK AND FORTH? For example, between problem identification and information gathering, or between making plans and implementing them?

-- HOW SHOULD A GROUP GO ABOUT PERIODICALLY ASSESSING AND MODIFYING EACH OF THE PRECEDING FIVE STEPS? Discussing this should help the group to see advantages of a continuous back-and-forth process of problem-solving.

3. GETTING STARTED SETTING GOALS AND PRIORITIES

Some groups will be new or just in the process of getting formed; others will be established but still need greater clarity about their purposes and problems. The problem-solving approach to strengthening group enterprise management applies to the whole range of groups - from those yet-to-be-formed, to ones already functioning but not yet fully effective and self-reliant.

The most promising groups will be those formed around some agreed-upon enterprise. Groups which come together for some general purpose like increasing incomes but without some specific activity in mind usually have more difficulty in creating a successful enterprise. In any case, it is important that group solidarity be generated and maintained. Shared experience with having already achieved common goals provides a good basis for solidarity, but carrying out a successful activity planned and implemented after the group has been formed can have the same result.

So while solidarity is important for group enterprise success, success can itself strengthen solidarity among members. One need not always start with a high degree of solidarity among members if there are reasonable prospects of success. It must be kept in mind, however, that success can lead to group dissension and dissolution if members become greedy and forget that it was their common action that made possible the benefits about which they are quarreling. Fortunately the opposite is also possible. A group experiencing initial failure may make greater efforts and finally succeed. More often, however, failure leads to disappointment and arguments that doom an enterprise.

What is an enterprise? Its main objective is to provide certain *goods or commodities* - foodstuffs like maize, rice, eggs or bread, clothing, tools, etc. - or to provide certain *services* - like rice milling, transportation, cassava processing, etc. - that earn a *profit.* This means that the *revenue* received from their sale is greater than the *cost* of producing them. Costs include what must be paid for labor and for raw materials and any other physical inputs, as well as for capital. (The latter costs include any interest charged on loans or for the working capital used).

The profits earned can either be reinvested or distributed among members. If the costs of production exceed the revenue received from the sale of goods or services, the enterprise is said to be operating at a *loss*. In a group enterprise, some number of persons - 6, 12, maybe as many as 20 - come together and become members with the purpose of producing goods or providing services that can be sold to make a profit.

> An example would be a bead-making group in Ghana with 10 members who by working 2-1/2 days can produce 20 strings of medium sized beads from a bucket full of stones which can be purchased for 400 cedis from persons engaged in excavation. Members pay themselves for their labor 130 cedis per day, which for 25 days of work (10 times 2.5) comes to 3,250 cedis. The raffia for threading the beads costs 250 cedis, so total direct costs of production are 3,900 cedis (400 + 3,250 + 250). As the strings of beads can be sold for 300 cedis each, income from 20 (times 300 cedis) is 6,000 cedis. This leaves a profit of 2,100 cedis for every bucket of stones processed by the group, not considering any other operating or overhead expenses, which would need to be considered and subtracted also from the anticipated profit.

Many benefits can come from working collectively. Groups, by pooling resources and efforts to carry out activities that are larger than an individual can undertake can achieve economies of scale. Members can increase their incomes by:

(1) Purchasing inputs like fertilizers or seeds in larger quantities and at lower prices.

(2) Jointly owning and sharing assets like a tractor or a grinding mill to reduce their capital costs.

(3) Processing commodities jointly for better quality or greater efficiency.

(4) Selling goods or services for better prices in larger, more regular quantities.

(5) Getting access to markets not otherwise open to them.

(6) Transporting inputs or outputs at lower cost by doing this jointly.

Groups usually use labor contributed by members or by family members (rather than hire outside persons). Payment for work is made out of the group's income at the end of a season or at the end of an accounting period (fortnight, month, quarter or year). Members may choose (a) to distribute among themselves the profits remaining once all expenses have been paid, or (b) to reinvest the profits in the enterprise in order to expand their production, purchase new assets, or otherwise improve their operation. A third alternative (c) is to reinvest some of the profits and to distribute the rest.

In the first chapter, we suggested that groups will engage in economic activity through their enterprises for some combination of objectives: profitability, resource utilization, and social benefit. When considering activities to be undertaken by a group enterprise, along with these criteria, members need to consider things like:

-- availability of inputs: if the activity involves manufacturing, then raw materials, equipment, power, etc. must be considered; if it is agricultural, then access to land, water, seeds, fertilizer, etc. will be equally important;

-- availability of skills: all production requires some specialized skills, which members may or may not possess; if they do not, special provision will need to be made for acquiring them; any activity utilizing existing members' skills is more attractive;

-- availability of markets: even if a group can produce goods or provide services, even ones of high quality, there may be no demand for them; considered along with this is whether transportation is available and not too costly;

-- availability of capital: the PPP may provide some working capital or loans for equipment, but this may not be enough; groups need to be able to mobilize capital from their members, but members also may not have sufficient capital on hand;

-- price relationships: how expensive are the inputs needed to produce goods or services compared to the price which can be received for their sale (minus transportation, handling and other costs, discussed in Chapter VII);

-- environmental impact: although these concerns may not be as acute as in the U.S. or European countries, people need to consider whether they will be undermining the natural resource base on which their productive activities and their quality of life depend;

-- technical feasibility: whether the technology to be used is both appropriate (manageable) and up-to-date (competitive and efficient);

-- political support: the local chief or town council can provide valuable assistance to an enterprise; such support should be solicited or cultivated early on.

If there are deficiencies or constraints in any of these areas -- inputs, skills, markets, capital, prices, environmental impact, technical feasibility, political support - profitable operation becomes less certain, as do the expected benefits from fuller utilization of local resources or social services.

Groups need to be clear about what difficulties they will face in embarking on a new enterprise, or in making existing activities more successful. They should consider who might lose business or profits by their starting up an activity, as such persons might oppose them. But with good planning and implementation, these as well as other obstacles can usually be overcome. First, members must be clear about *what they are trying to do* - what are the purposes for which they have come together?

QUESTIONS FOR DISCUSSION

-- IS PROFITABILITY THE GROUP ENTERPRISE'S ONLY OBJECTIVE? WHAT OTHER OBJECTIVES ARE IMPORTANT TO THE GROUP? HOW IMPORTANT? HOW MUCH PROFIT WOULD MEMBERS BE WILLING TO PASS UP FOR THESE OTHER OBJECTIVES?

-- TO WHAT EXTENT WILL MEMBERS BE SATISFIED WITH LESS THAN MAXIMUM PROFITS IF THEY CAN BE EARNING SOME INCOME FROM THE UTILIZATION OF OTHERWISE UNDERUTILIZED RESOURCES?

-- TO WHAT EXTENT WILL MEMBERS BE PLEASED IF THEY CAN PROVIDE SOCIAL BENEFITS TO THEMSELVES AND POSSIBLY OTHERS IN THE COMMUNITY?

-- HOW WILL SUCH BENEFITS BE FINANCED? WHO WILL PROVIDE THE COST OF THESE BENEFITS AND BY WHAT MEANS?

-- ENTERPRISES ARE MORE LIKELY TO BE SUCCESSFUL IF THEY TAKE ADVANTAGE OF CERTAIN PRODUCTIVE OPPORTUNITIES WHICH THEY HAVE THAT OTHER ENTERPRISES WITH WHOM THEY WOULD BE COMPETING DO NOT HAVE.

-- WHAT SPECIAL OPPORTUNITIES FOR PROFITABLE ACTIVITY WOULD THIS GROUP'S ENTERPRISE HAVE IN TERMS OF:

    -- What skills and time are available to members?

    -- What land or other natural resources they could draw on?

    -- What markets do they have access to, either for selling goods or services, or for getting raw materials?

    -- What capital do they have among themselves or could they acquire?

-- What prices prevail? Can they get especially high prices for goods? Or can they pay unusually low prices for inputs?

-- Do they live in a very favorable natural environment? Such as one that has abundant clean water, or good climate for drying things?

-- What about their physical location? Are they at a crossroads, or near town?

-- What favorable technical possibilities could they exploit?

4. ASSESSING ENTERPRISE PROSPECTS

Once the group has reached agreement on its goals as a group and shares a commitment to operating a group enterprise, it will need *information* in order to proceed successfully. Groups should look upon information as like "fuel" needed to drive their enterprise.

Getting information is not something to be done only once, at a particular stage. Although we describe it here as the first step in the problem-solving process, *information must be continually sought, acquired and evaluated.* We focus on it here, as something to be done between when a group makes its initial decision to start an enterprise and when it formulates a strategy and plan of work. But this does not mean that a group's need for information is satisfied once it has drawn up its strategy and plan of work. It may not need as much information later, but a continuing flow of information is required for successful operation.

Obtaining information about available and needed resources is a first step. Every enterprise will utilize a variety of resources. Group members should be encouraged to explore together (this is sometimes called "brainstorming") the types of resources that are possessed by themselves, by others in the community, by government personnel like extension agents, and so forth. These include:

(a) human resources - time, energy and skills for working;

(b) material resources - such as equipment, tools, animals;

(c) knowledge resources - special skills such as experience with managing economic activities, technical know-how; bookkeeping training; contacts for getting licenses and market permits; members' inventiveness and innovativeness.

Some of the most important resources will be knowledge resources, those in this last category, but they are easily overlooked unless members of the group examine these needs and possibilities.

An Example and a Caution

In previous discussions, the group will have considered what it has or can do that can give it some *comparative advantage* in economic activity. Certain market opportunities or locational advantages that are identified need to be "checked out" to see whether the required labor, financial, managerial, material and other resources are available or can be obtained at reasonable cost and on a reliable basis. Consider the following example:

> The PPP Kwayedza Bakery Group in Zimbabwe decided that it had a good opportunity to earn some money by making and selling bread. The bread being sold locally was brought in from outside the district and the supply was not reliable. Also, group members lived near a crossroads where many people from the surrounding area passed each day and there was a lot of commerce.
>
> This looked like an ideal opportunity. But before this PPP group could start a successful enterprise, it had to establish its own reasonably regular and adequate supply of flour, which was rationed by the government and required special permits. Approvals had to be gotten from their sponsoring ministry, and flour could only be obtained in a city 60 km away, with complex arrangements for transportation.
>
> Work assignments for making and selling the bread had to be frequently modified to adjust for the irregular supply of flour. But this was possible because the group was persistent in getting information both from its members AND from outside even far away from their home town. They had help from the Group Promoter but did not rely on her completely.

Groups should keep in mind that whenever what appears like a good opportunity for production and profit is not being taken advantage of by others, or when an attractive available resource is not being utilized, *there is usually some good reason for this.* Land not being currently cultivated may look inviting. But it may flood from time to time; it may be susceptible to pest problems; it may be enmeshed in impossibly complex legal battles. The bread-making opportunity that members of the Kwayedza group could see in Zimbabwe existed because of the immense difficulty that anyone would have in trying to get flour for use locally. If they could solve this problem, they could succeed where others would not. Their group had many troubles at first because they had greatly underestimated the difficulties attached to this opportunity.

One rule for groups to remember is: *Be cautious of any opportunity that looks* very *attractive on the surface.* There are usually some good reasons why others have not already capitalized on that possibility for production, processing, trade or whatever. The group should get information on why others have not undertaken this activity before. Or if some have tried it and failed, why?

Some Criteria

Group enterprises are more likely to succeed if the resources they need are:

(1) locally available: Can the resources needed by obtained in the village or nearby area? Or will they need to be purchased and transported from far away? Using local resources stimulates the local economy and will make the group more appreciated locally. This will contribute to sustainability of the enterprise.

(2) labor-intensive: Labor is usually the most available resource in the community. An enterprise utilizing the existing skills as well as giving new ones offers many advantages. Capital-intensive activities are not only expensive but are more vulnerable to slowdowns or breakdowns. For example, work depending on machines will stop if the supply of fuel or electricity is interrupted. Groups will find that using their own labor is more reliable than machines under most circumstances.

(3) culturally familiar: Resources, as well as production processes and products, that are well-known and accepted will make managing the enterprise easier. It is often difficult enough to establish new modes of operation and cooperation without also having to introduce new skills, attitudes and beliefs at the same time. Groups may want to be innovative in their production initiatives, which is commendable. But then they should be sure they do not also have other difficult problems to solve as well, such as input supply, storage or marketing.

To get groups to think about these issues, the Group Promoter may ask members of a group the following kinds of questions:

-- What are the human resources that this group can utilize? (labor time, technical skills, managerial expertise?)

-- What are the material resources that this group can mobilize? (land, hand tools, draft animals, etc:?)

-- Are these sufficient? Can more or other material resources be obtained locally? Could available resources be used more efficiently, thereby practically increasing their supply?

-- What are the financial resources that this group can draw on? (savings, loans, contributions from local business?)

-- How might labor and material resources be used to reduce the need for ~ take the place of - financial resources?

-- What knowledge resources can be drawn on from the group or the community? People who have little education and limited financial resources can nevertheless know a lot.

-- How can the mental power of the members and the community be put to work for the success of the group enterprise?

Groups members should determine what other information is vital for evaluating enterprise potential. Besides identifying resource needs and availability, other factors should be assessed such as: customer demand, competition from other private or public enterprises, costs of production, expected income and profit, and alternative technologies. (This last consideration will be taken up in Chapter 8.)

Doing an Enterprise Feasibility Study

Investigating these factors constitutes a feasibility study. It often happens that a group gets so enthusiastic about its idea for a new enterprise that it spends little time examining these factors, and thus it embarks on an economic activity that is not feasible, that cannot be sustained. A feasibility study need not be long or formal. Not everything needs to be written out. But the groups needs to have adequate information and to have given adequate consideration to these factors.

There are many sources of information for a feasibility study. Members can begin in their own village, observing items that people have in their homes or that they regularly purchase in a local shop. Members can observe the local market to see what consumers are buying and can talk with persons selling things in the market. Successful PPP groups can be visited and talked with. Bank loan officers or government personnel in small industries or enterprise promotion departments may be interviewed. All these can be resource people to provide information on necessary inputs, needed skills, problems encountered, etc.

To help members focus on the key questions for a feasibility study, we will discuss four areas of inquiry. The prior exploration of *resource availability* is also part of a feasibility study, as is consideration of *alternative technologies,* discussed later; but we focus here on *economic assessment* of a proposed enterprise.

(1) **Is there a DEMAND for the product or service?** During a visit to the market place, one wants to learn not just how much of what is being purchased, but why customers buy one product instead of another. This will require some interviewing to get a clear idea. What do people consider before they make a purchase? Lowest possible price? Nice appearance? Good and reliable relations with the seller? Something new or unusual? Something familiar and trusted? Is the product or service considered a luxury, purchased only when extra money is in hand? How many people buy the product or service? Men or women? How regularly do they buy it? Always in the same place? If not, where else?

Before starting a new enterprise, producing a certain good or service, one wants to know where demand for it would come from. In a serious feasibility study, members would write up *profiles* of potential customers, what kind of people (age, sex, occupation), where they live, what their habits and preferences are. In discussions with groups, GPs should emphasize *the importance of the customer.* Customers are free to choose what they will buy and from whom, at what price, and under what conditions. Enterprise profits depend on satisfied customers.

Selling to large buyers - to wholesalers or to government institutions -- has both advantages and disadvantages. Determining the amount and conditions of demand can take less time for such customers, but groups must have even more precise and certain information when they will depend on a few large purchasers.

Some questions the group should be able to answer:

-- What do people in this area need and buy? What do they get from outside the area?

-- How regularly do customers purchase this good or service?

-- Does demand fluctuate from week to week, or from month to month? What is the highest level and what the lowest level?

-- What price are people willing to pay, for what kinds, what amounts, and what quality?

(2) **Who are the COMPETITORS?** Before starting up a new enterprise, members need to consider who else is producing the same (or similar) goods and services. If the group enterprise will go into agricultural production, this may not be a serious problem. For most commodities, such as maize, the supply from small groups will have no effect upon *demand,* or upon *price.* But competition can be disastrous with vegetables that ripen about the same time (unless care is taken to plant different varieties or to stagger planting and harvesting times). A group selling tomatoes could wind up with losses rather than profits if others are also producing them -- unless the group has identified a new or steady *source of demand,* to whom it can sell or to whom it can transport its produce.

Groups producing manufactured goods do not face as dramatic losses as with a perishable crop like tomatoes. Products like woven baskets can be stored until a satisfactory price can be obtained. But manufacturing groups can be overwhelmed by a large inventory, with their working capital tied up in unsold goods, when there is no income from which to pay for the raw materials used to produce the goods or to pay their members for contributed labor.

Rather than start by considering only their own resources and capabilities, groups should survey - by observing if not always by talking with - their potential competitors, to know more about their practices and problems. Knowing *others'* costs of production will give a group some idea of whether it can work as efficiently or possibly more efficiently. Competition is seldom welcomed, so finding out such information may be difficult. Questions for the group to consider would include:

-- What are *others* able to produce under local conditions?

-- Could the group compete successfully with other producers?

-- Is there scope for expanding production profitably?

-- What can be learned from competitors' experience?

(3) **What are expected COSTS of operation?** Good budgeting is crucial to enterprise success. A budget is a plan for managing group resources. Groups should draw up an initial budget based on *estimates* of cost for different items, to see what the total cost is likely to be. This gets compared with *expected income,* to see whether the enterprise could be profitable. If the answer is YES -- the enterprise looks like it could be profitable - an *operating* budget needs to be prepared, based on more exact figures for the cost of the planned amount of each item, as discussed in the next chapter.

Group members may have only some general idea of the various costs involved in setting up and operating an enterprise. Having a set of categories to consider should help them be comprehensive in preparing their initial and operating budgets.[1]

[1]The categories suggested here are adapted from Doing a Feasibility Study: Training Activities for Starting or Reviewing a Small Business, ed. Suzanne Kindervatter, Overseas Education Fund Publication, 1987, p. 67. Information on how to obtain this useful guide is given in the appendix at the end of this manual.

As group members think of costs of production, it will be helpful to list them under the following headings. The headings will help keep groups from forgetting important expenses. Other categories may be added:

(1) Material Inputs, e.g., reeds for basket weaving, seeds and fertilizer for vegetables, pans for bread-baking, knives and grinders for processing cassava, looms for weaving cloth, etc.,

(2) Labor, payment to members or possibly others for their work in production, management, auditing books, etc.,

(3) Training, any costs for getting members the required technical or managerial skills through courses, advisors or other means,

(4) Facilities, costs of construction or rental of buildings or space for production, processing, storage, etc.,

(5) Transportation, costs of getting inputs to the work site or of transporting products to market; possibly taking persons to work site or to town for getting loans,

(6) Handling, products whether agricultural or manufactured need some processing, packaging or other treatment to be gotten into usable, attractive condition; this category could involve storage or curing if there are costs for this in addition to Labor or Facilities costs,

(7) Communication, costs of publicity, or of inquiring about possibilities for selling goods or services or getting new, better or lower-priced inputs,

(8) Capital, any costs of borrowing money for equipment, facilities or working capital - this includes mostly any interest charges an enterprise must pay.

(9) Land, if a group has to buy or rent this for its operations. Usually a group enterprise gets land for its agricultural or non-agricultural production activities contributed by members or by the community. If this is not available, this may be an additional cost category.

Questions to be considered include:

-- Have all costs of operation been identified and estimated?

-- What additional costs should be added to the budget?

-- Are the estimates of each cost reasonably accurate? Which of the cost estimates are not very reliable or sure?

-- If those costs are underestimated, how much can they affect total cost?

-- If the economy is experiencing inflation, how much will this affect operating costs over the next several months or years?

-- What can be done to cope with these effects?

(4) **What REVENUES and PROFITS** can be expected? Having carefully considered all foreseeable costs, members need to estimate what revenues can be anticipated. This will also tell them what profits are possible, since **revenues minus costs equal profits**. It will also help the group determine what price it needs to charge for their products or services, or what price must be achieved in the market from the sale of their products or services.

(a) If a group enterprise is producing something like reed baskets, it may be able to determine the price it will charge for them according to its cost of production, adding a *profit margin* to the price which it sets at some level above its *average cost.*

> The average cost of a good or a service is the total cost of production divided by the total number of goods (or the total number of services) that were produced for that cost (the total expenditure for production).

The group can use a simple formula: **average cost plus profit margin equals price.**

(b) Where a group enterprise is producing a standard good or service, the existing market will establish the price for which the good or service can be sold, for example, 20 shillings per bag of maize, or 10 cents per passenger for a ride from town A to town B. The concept of *average cost* is still relevant, but it is not used by the group to set the price at which its goods or services will be sold. Rather it is used to determine whether the enterprise can be profitable.

> If an enterprise's average cost is above the normal price set by the market, it cannot achieve a profit and will lose money for its members.
>
> If its average cost is below the market price, the enterprise can make a profit for its members, over and above paying them for their contribution of labor and possibly other inputs (materials, capital, etc.).

In some cases, an enterprise may not be profitable and might even lose some money from time to time but might still be judged worthwhile by members because they are earning some income from their labor and any other inputs they contribute. If the enterprise loses money, the result is that members will receive less from their labor than they had expected and hoped. But if their alternative is to earn nothing from this labor time, if it would otherwise be unemployed or not fully employed, they may prefer to get at least some enterprise income, even if the effective wage turns out to be reduced, rather than have no enterprise income.

When an enterprise is operating in this way, it is vulnerable to dissatis-faction, disputes and dissolution. While members may sometimes disagree over distribution of *profits,* they are more likely to quarrel over how *losses* must be shared. A profitable enterprise makes for a happier, more cooperative group. But profit is not all there is to group enterprise. Where it can generate a stream of income that its members benefit from - even if it is not as large an income stream as they would like and could get under ideal conditions -- the enterprise may be valued and maintained by members despite losses.

In such a situation, it is of course even more important that members very carefully identify and minimize all costs as considered above. The alternatives are to find ways (a) to increase the price the enterprise receives for its goods or services, or (b) to increase the scale of operation, to reduce if possible the average cost of enterprise outputs.

A group will know its price either (a) by estimating its cost of production and adding an amount for its profit to arrive at a price for selling its goods or services (this is possible where the group freely sets its own price) or (b) by seeing what the usual market price is and deciding whether it can produce the good or service at an average cost less than or about that price (where a group must sell at whatever price the market sets).

Once the price is known or estimated, the group can determine what may be its *revenue.* This equals **the total number of goods or services sold times the price received** for those goods or services. Revenue may be called Income, just as Costs are often referred to as Expenditures. The words used are not important, but the ideas behind them are, as are the *numbers* calculated for each.

As stated already, *profits* are figured by subtracting *costs* from *revenue.* Once a group has estimated its likely profit, it needs to consider whether this appears sufficient to justify the effort to create the proposed enterprise. Possibly with little or no profit, the group may want to launch the enterprise, thinking (a) that the income generated to compensate their labor is sufficient even without an added profit, or (b) that the enterprise can be made profitable over time, as production can be expanded or made more efficient. (If the latter assumption is made, the group should not proceed without some ideas of how this might happen; wishing it will happen will not make it happen; there should be some specific plans that can move the enterprise toward profitability.)

These are the main economic elements of a feasibility study: (a) an analysis of DEMAND, (b) an assessment of COMPETITION, (c) a listing and adding up of COSTS, and (d) an estimate of REVENUE and anticipated PROFIT. In addition, there should be an evaluation of *resource availability* and of *alternative technologies,* but these are to be considered separately as these pertain more to physical options. Whatever is decided about them (resources and technology) should be integrated into the economic analysis (a) through (d).

Further questions for the group to consider are:

-- Is the proposed price one which expected customers will be able to pay? Will they regard it as fair? As attractive?

-- How much profit should the group expect to make? How much should it aim for?

- Why would or should customers buy the group's products or services instead of those produced by competitors? How is their product or service different? Better? Cheaper?

- If the planned enterprise is not very profitable, how could it be made more profitable? How realistic are these suggestions?

Reality Testing

The Group Promoter should encourage group members to be critical of the information they have gathered and should encourage them to get information from a number of different sources if possible. This will reduce the likelihood of errors. When analyzing information, the GP and members should keep in mind some common assumptions made that can prove misleading or mistaken.[2]

[2]These common misperceptions about data are highlighted in an In-Service Training Manual on Small Enterprise Development, prepared by Pragma Corporation and PADCO Inc. and published by the Peace Corps Information Collection and Exchange (ICE), July 1986.

Assumption 1: Information gathered is correct. Agricultural reports, for example, are often wrong, reflecting estimates of what was standing in the field rather than actual amounts harvested. Many times data gathered through surveys are "made up" by the data collectors, so they are estimates or just imagination.

Assumption 2: Information reflects a constant reality. Even if data are or were correct, situations are continually changing, so allowances should be made for this variability. Often the only data from published sources are a number of years old and will be out of date. Conditions may be quite different now.

Assumption 3: Information people give says what they know or mean. Often people will tell interviewers just what they think the interviewers want to hear. This may be done to deceive, or to appear knowledgeable and helpful, or simply to speed up the interview.

Assumption 4: People will do what they say they will do. Often people forget or fail to follow through or may be kept from doing what they thought they would do. Someone may says he will buy a certain product in three months' time, but when that time comes, he may have spent his money on other goods.

The Group Promoter should not be promoting cynicism or negative thinking, but the GP should help group members be realistic about the information they are working with. Without getting into complicated benefit-cost analyses, group enterprises can use the concept of *sensitivity testing* that economists have developed for more elaborate appraisals of economic feasibility.

When possible profits have been calculated, they can be re-calculated on alternative assumptions, for example:

-- the volume of sales is 10% less than predicted, or

-- the price that people will pay falls by 10%, or

-- the cost of raw materials rises by 10%, or

-- only half as much fertilizer as expected is available at planting time,

-- pests destroy 20% of the crop, or

-- 20% of the clay pots made break while baking in the kiln.

What would such shifts in circumstances affect the profitability of the enterprise? Comparing the impact of these different kinds of shifts will tell the group *which shifts in circumstances their enterprise is most vulnerable to.* If pest damage reducing yield has a greater effect than a drop in price, the group must be especially on guard to protect its crop. If breakage of pots would have a drastic effect on earnings, a group may decide to seek more expert advice or do some experimentation to be sure it can fire pots with minimal losses. If a rise in transportation costs could move an enterprise from a profit to a loss position, knowing about other means of transport or getting enforceable long-term contracts with carriers may be advisable before the enterprise is started.

Sensitivity analysis sounds complicated, but it is basically the application of common sense to the analysis of enterprise feasibility. One takes using the numbers generated to compare *costs* and *revenues,* so as to estimate *profits,* and then simply revises costs or revenues, either upward or downward according to different assumptions, to see what effect this has on profits.

We say that an enterprise that is not much affected by making different assumptions is robust - it can withstand a variety of economic shocks or surprises. If it can be economically undermined by changing one or two assumptions, group members should proceed with caution or maybe look for some different kind of

enterprise, one which will look more robust after doing the same kind of information gathering and analysis for the proposed alternative as was described here for the initial proposal. (Discussion questions have been raised throughout Chapter 4, so no more are suggested here at the end of this chapter.)

5. PLANNING ENTERPRISE ACTIVITIES

Once a group is satisfied that the enterprise it has in mind is feasible and decides to proceed, the next step is to produce a management plan.[3] Planning encourages the group to look to the future and design a step-by-step strategy to realize its goals. A management plan is essentially a set of rules of operation for the group enterprise. The plan does not necessarily all have to be written out in one formal document, like a government's development plan. But some things should be written down. The plan should not be regarded as permanent. It can be modified. What is important is that all group members be fully involved in the process of formulating the plan, and that members' skills and all enterprise resources are used to the fullest advantage.

[3]The concept of a management plan is outlined in the FAO/PPP Guidelines for the Preparation of Case Studies (1988) and is elaborated here.

The first step in devising such a plan is to state clearly the main purpose of the group. What is the group going to produce? How? For whom? For what benefits? A plan should thus begin with:

(a) Statement of Enterprise Objectives. These have been already discussed and decided on (see Chapter 3), but they deserve formal statement at the outset of a plan.

Other elements to be included are:

(b) Specific Targets for Various Activities and Phases. This is a statement of what goals the enterprise expects to reach within specified periods of time - what will be achieved the first month, what the next month, and so forth, with some summary figures for the season or year.

If the group's goal is to make a certain profit or to attain a certain level of production within a six-month period, there should be some specification of the intermediate steps or levels showing how the overall goal would be achieved. Targets should be both short and long run.

(c) Assignment of Responsibilities. Who does what, when and how? A clear statement of responsibilities will help ensure that the objectives and targets stated above are realized.

A listing of responsibilities can be constructed from doing an analysis of each activity necessary for the production of a certain good or service and for the associated activities such as processing and marketing. It is unlikely that all activities and responsibilities will be identified at the outset before members are acquainted with all the details of a new enterprise. But the plan can be added to as need arises.

The group should not only assign responsibilities but should develop a means for assigning them as well. Some tasks, for example, could be assigned on a rotational basis, with periods varying from a month to six months. A special effort should be made to distribute the tasks and the levels of responsibility evenly, or to have some good reasons (and group acceptance) for making any special delegations of work and authority.

It is good if each member has the opportunity to learn a variety of tasks, although there will be some tasks for which some members are more suited than others. Rotating tasks can be a good strategy for bringing women into more responsible roles within a group. Women may be reluctant to take on long-term primary responsibilities because of family commitments. If the tasks can be assigned for limited periods, women will have more opportunity to participate. Dividing and sharing tasks can also help prevent an uneven build-up of power with any one member.

If many persons know how to perform a task, the group is not dependent on one individual. Initially, rotation may slow down implementation, but in the longer run it will ensure broader participation and capacity building. The length of rotation periods varies greatly among countries. In Sri Lanka, the agreed-upon term for PPP group office holders can be as short as one month, while in most African countries the period is much longer, often a year or two.

Once the who and what have been decided, the when has to be established. Plans must be made far enough in advance to get materials to the work site on time, so as not to delay construction or planting or whatever else the group plans. Where purchases must be made and transportation arranged, it is wise to allow some extra time in case these to take longer to accomplish than hoped. In a work plan, how long needs also to be spelled out, with sufficient time allotted for completion of an activity. If an activity like planting a cassava or maize crop is given only four days but for various reasons requires eight, this may conflict with members' schedules and they may be unable to finish the task. Good planning in advance helps members budget their own time and make more effective and timely contributions to group work.

Finally, the how must be considered. Certain tasks might require the use of heavy machinery, regular trips to the capitol city, or unfamiliar techniques of production. If tasks are planned ahead of time, members can make provisions such as hiring a tractor from the neighboring village, reserving space on the bus, or inviting an extension agent to demonstrate new means of planting and crop protection. Sometimes the first idea of how a task can be accomplished proves not to be correct or the best. But a proposed method should be put into the plan so there is agreement on how to start, recognizing that modifications may be made.

(d) Development of Simple Record Keeping System. This is a difficult assignment. Often group members may feel that their business is too small to require record-keeping. GPs should stress the importance of this.

We discuss different kinds of record keeping in the following chapter, in connection with operating the group enterprise. At a minimum, enough record keeping should be introduced to keep track of material, labor and cash contributions, of production output, and of sales. The records will help groups to set realistic goals for the future and to make sound decisions today. Adequate records are also useful when the group seeks a loan from a lending institution.

At this stage, the different kinds of record keeping need to be planned and responsibilities for them need to be assigned. But implementing them is done in the course of operation. The group should recognize the value of keeping good records and make sure that once its work begins its members do not neglect this activity.

(e) Short and Long-Range Planning for Production Levels. When done when an enterprise is beginning operation, this is only a projection. More accurate numbers can be decided upon once experience has been gained. But even at the outset, some estimated production levels should be specified by the group.

Groups will need to make estimates of short-run and longer-run production so that they can know what price they must obtain in order to cover their fixed and variable costs of production.[4] This is known as the break-even point, where if all that is produced is sold at that price, all costs of production can be paid. This does not leave any margin of profit but at least there will be no loss. To achieve a profit, a higher price must be set or received to return a profit, or a larger volume must be produced and sold.

[4]A more elaborate analysis is offered in Shirley Buzzard and Elaine Edgcomb, eds., Monitoring and Evaluating Small Business Projects: A Step-bv-Step Guide for Private Development Organizations, published by Private Agencies Collaborating Together (PACT), New York, 1987.

The break-even point thus has two components: price and volume of production. If the seller can set whatever reasonable price he wants and the costs of production are fixed, the break-even price is calculated by dividing the total cost of production by the number of units produced and sold. If on the other hand, the price is fixed - because it is set by what will be accepted in the marketplace or there are government regulations - the break-even level of production is calculated by dividing total costs of production by the price per unit. This kind of calculation will usually have been done as part of the previous feasibility analysis and can be used in the planning activities that start up an enterprise.

One consideration in the initial and subsequent planning concerns economies of scale. Usually since there are certain fixed costs of production (for machinery, for example) that get spread across all units produced, the cost of production per unit goes down as the scale of production increases. There can be counter-balancing diseconomies of scale if the costs of production rise, for example, due to need to hire specialists to manage a larger operation or to purchase additional capital equipment (trucks, pumps, etc.) when existing equipment is already being used to its fullest extent. By analyzing the expenses and income for alternative levels of production, the group can decide which is the level which yields the greatest net benefit (revenue minus expenditures).

Decisions on long and short-term production levels need to be linked to inventory control. The amount of a commodity or product that a group can keep safely in stock will influence whether the group can plan a higher or lower level of production. Whenever the amount in inventory - "in stock" - piles up, the group will probably decide to cut back production levels in order to avoid "stockpiling." On the other hand, if the group has little amount and variety in stock, it may need to raise its production level so that it will be able to satisfy all or most customer demands. (This subject of inventory management is addressed in more detail in Chapter 8.)

When undertaking agricultural production, planning output levels needs to be very sensitive to the fluctuations in the level of price that can be received. The price that will be paid for commodities shortly after harvest is usually much lower than at later times of greater scarcity. Indeed, the price received when markets are full due to heavy harvesting may not even cover the costs of production. So group enterprises engaged in agriculture should estimate, plan and adjust their production accordingly.

This can involve varying the timing and amount of sales to take advantage of any possible beneficial changes in the price level. Production should be coordinated as much as possible with a group's plans for sales to increase the enterprise income. Commodities may be stored for later sale when this will lead to more profit.

(f) Planning for Profit Distribution. Reinvestment, and/or Savings. Assuming that the enterprise will have profits, plans need to be made for how they will be utilized.

Members should weigh the alternative benefits of (a) distributing all profits among themselves, (b) reinvesting them in the fixed or working capital of the enterprise, or (c) putting them into a savings account for some to-be-determined use in the future. A combination of these options is usually possible.

Members may see good opportunities to expand the scale and efficiency of their production by investing their profits in new machinery or in purchasing raw materials in larger, discounted quantities. Some investment may be necessary to replace or repair machinery that is depreciating over time. For example, if a group purchases a new gari processor, after five years the value of that machine will be much less, due to deterioration in the working of the gari processor itself, or due to technological change as new and improved models may be available. The older model will be less desirable and thus worth a lower price. Investing in more modern equipment will usually improve a group's competitive position and lead to more profits.

Another alternative is to establish a savings fund that can be used by different members in time of need. This can give members security in the event of sudden emergencies, such as theft or fire. The availability of resources on short notice and without mortgaging personal property is a great benefit to members. The fund can also backstop the enterprise with resources available to cover working capital and other needs.

The reason for having a plan for utilization of profits is that without some prior agreement, members may make many different plans in their heads for how to spend this money. Some will be disappointed once the profits are realized and not used as they preferred, and this can undermine group solidarity. So it protects the group to have some agreed plan in force before the profits are suddenly in hand.

QUESTIONS FOR DISCUSSION

-- AFTER THE INITIAL PLAN, HOW OFTEN SHOULD A NEW PLAN BE MADE? EVERY MONTH? EVERY THREE MONTHS? EVERY SIX MONTHS? EVERY YEAR?

-- HOW SHOULD THE GROUP GO ABOUT ASSIGNING AND SHARING RESPONSIBILITIES FOR DIFFERENT TASKS?

  -- According to individual preferences?

  -- According to some rotation?

  -- According to a lottery?

  -- With permanent assignments?

  -- According to group assessments of personal talents?

-- HOW CAN A GROUP PLAN ITS AGRICULTURAL PRODUCTION TO TAKE BEST ADVANTAGE OF PRICE INCREASES SOME MONTHS AFTER HARVESTING?

-- HOW LARGE AN INVENTORY SHOULD A GROUP PLAN TO PRODUCE AND MAINTAIN?

-- IF A GROUP'S ESTIMATE OF ITS BREAK-EVEN PRICE IS LESS THAN THE MARKET PRICE. WHAT CAN IT DO?

--WHEN A GROUP UNDERTAKES TO MAKE A SHORT-TERM PLAN AND A LONG-TERM PLAN, FOR HOW LONG IS IT REASONABLE TO MAKE THE SHORT-TERM PLAN? FOR WHAT PERIOD SHOULD IT MAKE A LONG-TERM PLAN?

-- WHAT KIND OF PLAN FOR USING PROFITS CAN THE GROUP AGREE ON? HOW MUCH SHOULD GO INTO REINVESTMENT? HOW MUCH INTO GROUP SAVINGS? HOW MUCH SHOULD BE DISTRIBUTED AMONG MEMBERS?

-- WHAT PROBLEMS OF COORDINATION OF ENTERPRISE ACTIVITIES CAN THE MEMBERS ANTICIPATE? HOW COULD THEY DEAL WITH SUCH PROBLEMS IN THEIR PLANNING?

6. OPERATING A GROUP ENTERPRISE

Once a group has its plan of operation, implementation can begin. There are always some unanticipated difficulties to be resolved, since no plan can be perfect. Circumstances are always changing -- shortages arise, prices change, the interest or time availability of some members may diminish. But if the group has worked through the steps described above -- taking a systematic approach to Problem-Solving -- enterprise operations should be manageable.

The Problem-Solving Approach outlined in this manual should be applied not just to the overall development of the enterprise, but it should also be used during this stage of implementation. As a group proceeds to carry out its plan of operation, it needs to identify the various constraints, obstructions, opportunities and new circumstances that may affect the enterprise's performance. The group should seek and assess as much information as it needs to understand its problems or opportunities, leading it to formulate strategies for dealing with those which are most urgent or promising. Opportunities that arise during the implementation of a plan of operation represent a special kind of "problem," more welcome than the usual kinds. Either a new plan, or modification of the existing plan, should be formulated to carry out a strategy that responds to the new situation, and then the revised plan should be put into effect.

Having a plan of operation that all have agreed on will help in mobilizing cooperation in carrying out enterprise activities. But all should remember that the plan can be -- and may need to be -- modified in the course of implementation if the group is to achieve its objectives under changing conditions. A plan of work should always be seen as a MEANS to achieve the group's goals, rather than as a GOAL to be reached just as it was described in advance. A plan is the group's best idea about how to meet its goals when it thought about this ahead of time. A clever group will proceed to implement its plan with an understanding that some improvements will be possible in even the best plan, and some changes are likely to be necessary. Otherwise the group will achieve far fewer benefits than it could.

Financial Management

In private enterprise management, it is sometimes debated whether managing finances or personnel is more difficult and crucial. Because in a group enterprise, members are essentially working for themselves, problems of personnel management are quite different, and financial management clearly is the more critical task. Other special problem areas like inventory management and marketing are discussed in Chapter 8. Funds are not the only or even the most important input for enterprises, but they are most often the source of major problems in operation, so they deserve special attention.[5]

[5]This subject has been treated at greater length than space permits here in a paper on Group Enterprise Management prepared in the FAO/Rome office for PPP during 1988. For more detail, consult that document.

Records to be Kept. An enterprise makes many transactions of many kinds every day it operates. Some transactions are made in cash and they are easy to keep track of if good record-keeping prevails. Other transactions are in kind -- hours of labor contributed from members, number of bags of crop harvested and stored -- or still others have only imputed or estimated value -- depreciation of a tractor or pump according to the number of hours used, or increase or decrease in the value of goods stored in a warehouse as their prices in the marketplace go up or down. All of these come under the heading of "financial management" even though not all involve the transfer of funds.

Once a system of record-keeping is established, if it is kept simple and is explained well, persons need not be literate or even know much about numbers to help the enterprise keep track of transactions. Simply making a mark in a designated space for each unit received (or given) can create a simple kind of record. Two cardinal rules apply to all record-keeping, even the simplest:

> Responsibility for keeping records must be firmly assigned. Nothing spoils records more or faster than having several people making entries without clear authority and responsibility to do so. All transactions should have some verification, if possible by a voucher or receipt but at least by a signature, so some person has put his or her name and honor behind that entry.

All systems of record-keeping, like all transactions, depend to some degree on trust between people. But one way of keeping disagreements to a minimum and thereby preserving trust is to have a reliable system for recording transactions. It is said that the weakest pencil or ink is better than the strongest memory.

Operating Budget. For each month, crop season or calendar year, or any other period of time that makes sense for estimating and balancing expenditures and income, the enterprise should have an operating budget. It will list all of the anticipated expenses for that period -- all money to be spend on raw materials, labor, interest on loans and any repayment, land or building rental, equipment purchase or hire-purchase arrangements, etc. It will also estimate production and expected revenue from sales or other activities like selling services.

The amounts of expenditure and income should be added up for shorter periods (per week, per fortnight or per month) to see how they compare. This will show whether there are any likely cash flow problems, when the enterprise has to pay out more than receives in a particular period. An operating budget sets targets for the enterprise and enables its members to monitor their progress and profitability. Some deviations from the budget will be necessary and even sometimes desirable. But they need to be justified in terms of improving the profitability and long-run sustainability of the enterprise.

Working Capital. All enterprises need to have a sufficient supply of working capital on hand to pay for short-run expenses that exceed revenue. When starting up an enterprise, the group needs to acquire, with its own funds or through loans, the various things it needs to produce the planned goods or services:

-- machinery (pump, mill, hand tractor, sewing machines, etc.),

-- equipment (tools, sprayers, drying racks, etc.),

-- stocks of raw materials (cloth, thread, seeds, fertilizers, leather, well-cured wood etc.),

-- hired labor (if members' labor or skills are not enough), and

-- rental of any land or property not contributed by members.

If the group cannot finance all of these expenses from members' resources at the outset, it will need to get a loan and will then have to be repaying that amount with interest over some period of time. So there are likely to be capital expenses during each period along with payments for labor, raw materials, rent, etc. Loans can be for assets like machinery, equipment, land or facilities, or for working capital to cover all kinds of expenses that cannot be paid for from enterprise revenue at that time. With an operating budget, the enterprise can anticipate how much it will need to be spending in each week, month or season for different kinds of expenditure. Against this it will set how much it expects to receive as income. It aims at having an income greater than its expenditure, that is, at making a profit.

In some months or some seasons, an enterprise may suffer a loss because it overestimated income or underestimated expenses. The price of raw materials may increase suddenly; the price it gets for its products or services may drop; not all its products may get sold; some of its products may spoil or get lost; there can be an interruption in production; crops can fail; persons who received goods on credit may not pay for them when they promised to do so.

One-time losses due to factors like this are not uncommon. The enterprise can continue operating if members make up the losses from their own resources, if they have a reserve fund to draw on, or if they can borrow funds to maintain the enterprise, expecting to repay the loan from future profits. But any such loss should be a warning sign to members that their hopes of profit may be exaggerated and that they must manage their remaining resources even more carefully.

It is important that an enterprise have some liquidity, the term used for uncommitted funds or capital that can be drawn on to meet unexpected expenses. Not to have such resources means the enterprise must borrow money, often on unfavorable terms, or miss opportunities such as buying raw materials when they are cheap or plentiful, making small repairs on machinery before larger and more expensive breakdowns occur, experimenting with a new line of production that might prove profitable, etc.

Small enterprises are known for operating with little or no working capital and thus with little or no liquidity. Not having such resources raises the costs of production and lowers profit margins. But at the same time, having much money in reserve can represent a cost, either because it is not earning interest as it would if deposited in a bank, or because in a situation of high price inflation, cash loses its value rapidly. Group enterprises need to make careful decisions about how much money to have in reserve as working capital, and how to handle it. They need a sufficient amount on hand but "not too much."

Group Savings and Borrowing. When starting an enterprise, members should each put some funds into a savings fund, and it is a good idea if they can make some regular deposits to build up a substantial amount. They can deposit all or most of this in a bank to draw interest on it. (Depending on the rate of inflation in the country, bank savings may or may not be an attractive financial alternative.) With group funds in the bank, the enterprise can usually borrow some larger amount against these funds on favorable terms. It has to be clear what rights members have to withdraw their share of the group fund -- when, how much, how quickly, for how long, etc.

Group borrowing decisions are very serious matters since the group's assets are put at risk, and under many borrowing arrangements, members' assets must be pledged as security. There are good and bad reasons for borrowing. Usually short-term cash needs can be met somehow by members' contributions. If members cannot be persuaded to help the enterprise through a particular short-term crisis, there may be something wrong with the group, with the enterprise, or with both.

Borrowing should be done where it is expected to increase the flow of profits and other benefits in the future, quickly enough and in sufficient amount to cover the necessary repayment (interest and principal) still leaving a margin of profit for the enterprise. Members know how cautious they are when borrowing for themselves, when they put their families' position at risk. They should be no less careful in weighing the wisdom of group loans, after making a thorough comparison of expected costs and benefits.

Reserve Funds. As suggested above, it is wise for a group to set aside some share of its profits in a reserve fund that can be drawn on when working capital is needed and when new capital purchases are necessary. Deterioration of equipment, machinery or facilities is too often ignored by small enterprises, with no provision for replacement or renovation. With an ample reserve fund built up by members, much or all of it deposited in a bank to earn interest and thus grow in amount, such problems can be handled.

Reserve funds should be treated as carefully as bank loans. They represent the members' own funds put aside for a special purpose. When the reserve becomes large enough that it can protect the enterprise against any foreseeable situation, some of it should be paid back to members, in proportion to the contributions they made to it, directly or indirectly. It is important for good records to be kept so all members know what share of the reserve represents his or her contribution.

Care of Assets. All members should be encouraged to treat the assets of the enterprise as if these were their own personal property, even though they belong to the group. Persons often treat group property less carefully than they would their own property. They may use an enterprise sewing machine on cloth that is too heavy, or not stop up an eroding gully in a cooperative vegetable field, or drive an enterprise tractor over tree stumps they would drive around if it were their own tractor. The first rule has to be to protect and preserve group assets.

But the second rule is that almost all assets deteriorate, even with careful use. Soil may be replenished with fertilizer applications, and a tractor can be fixed up "almost like new." But for all physical capital, some funds should be set aside on a regular basis to repair and eventually to replace any machinery or equipment that the enterprise depends on, like a pump motor or even hoes and cutting knives.

Accounting. Many of the things we have discussed require the enterprise to keep some careful accounts or records. The means and forms for this are discussed in many manuals and guidelines (such as the 1988 PPP guidelines noted above). In the space we have here, we can only note the different kinds of accounting needed. Most require more common sense and thoroughness than education or training.

(a) Cash Accounting. Since many misunderstanding and disputes can arise over money, it is essential that all cash transactions be recorded in some kind of notebook. Receipts can be kept in an envelope or box to back up the entries. This will include both receipts and expenditures of money, showing at all times what is the balance of funds available.

(b) Members' Accounting. Each member will have his or her own account with the enterprise, not all of it shown in money terms. Members will be contributing some amount of labor every day or week which should be recorded. They will be making usually savings deposits, and they will be making occasional withdrawals and will be receiving periodically some share of profits, either paid to them personally or retained in the group reserve fund.

These should all be noted. When members make purchases of goods or services from the enterprise, these should be entered in their respective accounts. If they contribute tools or raw materials, this should be recorded, just as should any members' share of group assets. (Keeping in mind what was just said above, the latter value will be a declining one; as the asset deteriorates or depreciates, its "book value" will become more than its "real value" unless adjustments are made in the book value to reflect its lower real value.)

(c) Bank Accounts. The group's transactions with any banks should be kept in a separate book (though also entered as part of the enterprise's accounting record). Loans and repayments should be entered fully, noting any terms and conditions agreed to. Deposits, any withdrawals, and current balances need to be entered exactly, supported by receipts or other documentation given by the bank.

(d) Asset Inventory. All assets of the enterprise should be written down in some book, with the original cost and details of purchase, any record of repair or other expenses, and some plan for replacement of the asset or for upgrading it at some future time. If there is a schedule for maintenance, a record should be kept of when this work is done.

Beyond these most essential kinds of accounting, there are a number of kinds of (e) Enterprise Accounts, that should be kept in addition to the above, in greater or lesser detail.

(1) A record of production costs is important, with information on labor and other inputs from members as well as cash expenditures written down.

(2) A record of production (in physical terms) and sales (in monetary terms) is important.

(3) A special record should be kept of inventory, of what is currently "in stock." Inventory is the difference between what goods or materials have been put into storage facilities and what goods or materials have been taken out for sale or for other uses. Information on amounts and dates is important to record, and the amount in inventory should be periodically checked and confirmed by members, as discussed in Chapter 8.

(4) A record of accounts receivable -- what certain individuals or enterprises owe to the group -- is necessary. This must be supported by enough documentation to give the group a basis for supporting its claims for repayment of money owed to it.

(5) For each month, season or year, there should be a statement of profit/loss, which totals up all income from enterprise activities and subtracts from this all the costs of production, to arrive at a net balance. If this is positive, the enterprise has operated at a profit; if negative, it operated at a loss.

(6) Less often, perhaps once a year, it is desirable to figure up a statement of net worth, in which an enterprise's total assets are compared with its total liabilities.

ASSETS include -- all cash in hand and cash in the bank,

-- value of inventory, adjusted for any spoilage or loss of value,

-- accounts receivable, the amount owed to the enterprise realistically not counting uncollectible money owed to group,

-- value of fixed assets, the value of machines, equipment, buildings, etc. that the enterprise owns, deducting the amount of estimated depreciation or deterioration.

LIABILITIES include all financial obligations to banks, suppliers, members, other groups or enterprises, transporters, etc.

TOTAL ASSETS MINUS TOTAL LIABILITIES EQUALS NET WORTH.

This survey of different kinds of accounts shows how operating an enterprise can be complicated. Enterprises will seldom start out with complete records in all categories, (a) Cash Accounts, (b) Members' Accounts, and (c) Bank Accounts are the bare minimum. (d) Asset Inventory, is important and not so difficult. Groups should go into the kinds of records listed under (e) Enterprise Accounts, in as much depth and detail as they can manage.

One good strategy is for Group Promoters to identify which group in their area has developed the best system of accounting and to have the members of that group who keep its records spend a few days, perhaps compensated by the receiving groups for their time, conducting informal training sessions with their counterparts in other groups. Such advice will be practical and based on experience, and thus will be more credible and applicable.

Personnel Management

In a group enterprise, there is no "boss" to assign tasks and order people to do work because he is their employer and pays their wages -- and can fire them if dissatisfied with their work. This ought to make for a more congenial working environment. But only if all members act responsibly and nobody takes advantage of others' good will.

The first rule is that all people are individuals, with different skills and limitations, and with different likes and dislikes. A group enterprise will get the most productivity from its members if the assignment of tasks is flexible. Some tasks are basically unpleasant (like weeding vegetables in the hot noonday sun) and nobody may be better than others at this task, so there is little reason not to share it around evenly. Where skill is involved, it is in the group's interest to put people to work at tasks they do better than others (and that they probably enjoy doing more than other tasks).

What is important is that all assignments be discussed in advance by the group, and all should be given a chance to make their suggestions of how to share the labor and responsibility. Usually some consensus can be reached, or if not, some system of rotating tasks can be agreed upon as fair. It is often helpful for some person or persons to be given some authority to organize and supervise and evaluate the work. Such persons may be more knowledgeable and may also have a pleasant way of working with people. If such assignments are not readily agreed upon, such responsibility can be rotated on a weekly or monthly basis.

It is critical that somebody be regarded as having authority to speak and act in the name of the group, and to regard himself or herself as having such authority, if only on a temporary basis. There is an old saying that if everybody is responsible, nobody is responsible. Groups can usually proceed very well on a consensus basis, but it is good to have a clear understanding of who will feel obliged and entitled to resolve any disputes between members or with outsiders, to make a quick decision about any change in the price at which group products are sold, to start fieldwork sooner than planned when bad weather threatens, etc.

The group as a whole should decide what are appropriate incentives to give members for their effort, both for manual labor and for managerial tasks like keeping accounts and records, or handling the marketing of products. It is important that group morale be maintained, because tensions between members will spoil a group enterprise as fast as a fall in the market price for its products. So personnel management in a group context is as great a challenge as in a private enterprise, only it must be done without the clear authority which employers can wield. This subject of "delegation" is discussed at some greater length in Chapter 8.

Other Considerations

Other tasks besides financial and personnel management are involved in operating a group enterprise, but these are the two major focuses -- on people and on money. Other functions such as inventory management and marketing are considered in the final chapter which addresses specific common problems for group enterprises.

QUESTIONS FOR GROUP DISCUSSION

-- WHAT CAN HAPPEN WHEN CASH RECORDS ARE POORLY KEPT? WHEN AND HOW SHOULD CASH TRANSACTIONS BE RECORDED?

-- WHAT IS THE IMPORTANCE OF HAVING A SIGNATURE AND AN EXPLANATION BESIDE EACH RECORDED TRANSACTION? WHEN IS IT SUFFICIENT JUST TO KEEP RECEIPTS IN A BOX?

-- CAN RECORD-KEEPING MAKE A BUSINESS MORE PROFITABLE? WILL IT HELP A GROUP QUALIFY FOR A BANK LOAN?

-- WHICH OF THE BUSINESS RECORDS SUGGESTED ON PAGE 50 WILL BE MOST USEFUL TO THE GROUP ENTERPRISE?

-- WHO SHOULD HAVE AUTHORITY TO SPEND MORE ENTERPRISE MONEY THAN SPECIFIED IN THE OPERATIONAL BUDGET FOR RAW MATERIALS, TRANSPORT OR OTHER INPUTS?

-- WHAT SHOULD BE DONE WHEN AN ENTERPRISE FINDS THAT IT DOES NOT HAVE ENOUGH WORKING CAPITAL?

-- HOW LARGE SHOULD THE ENTERPRISE'S RESERVE FUND BE BEFORE IT PAYS OUT ALL OF ITS PROFITS TO MEMBERS?

-- WHAT IS THE BEST WAY TO TAKE ACCOUNT OF DEPRECIATION? SHOULD THE ENTERPRISE PUT ACTUAL MONEY ASIDE IN A SPECIAL FUND? SHOULD IT SIMPLY KEEP PAPER RECORDS AND ACCOUNTS OF THIS MONEY?

-- SHOULD MEMBERS BE REQUIRED TO PLEDGE SOME OF THEIR OWN ASSETS AS SECURITY FOR A GROUP ENTERPRISE LOAN?

-- SHOULD AN ENTERPRISE'S PROFIT (OR LOSS) BE CALCULATED WIT MEMBERS' LABOR COUNTED AND PAID AS A COST? OR SHOULD THEY RECEIVE A SHARE OF PROFITS (NOT COUNTING LABOR COSTS) AS PAYMENT?

7. EVALUATING THE GROUP ENTERPRISE

Just as operating a group enterprise is an on-going activity, so is evaluating it, even though we sometimes think that evaluation is something to be done at the end of a certain period of time. Evaluation is not done continuously; it is better done periodically. But it should be a regular activity, giving feedback to the group on how well it is doing. We need not say much about evaluation here since this has been discussed often in this manual.

Evaluation is an activity built into the problem-solving process described in Chapter 2. What were the problems identified for priority solution? Were they the right ones? What was the strategy and resulting plan? Were they appropriate? What responsibilities were assigned for implementation? Has this been successful? These questions are to be answered through collective discussion. They are not matters which require outside technical assistance or fancy measurement techniques.

The group should keep its attention not just on solving problems but also on achieving goals. What did the group set out to accomplish when it was formed? This was also discussed in Chapter 2. If a high priority was placed on earning income for members, this should be periodically evaluated. How much has been earned? Is this satisfactory? How might more be earned? Would it be worth the effort and risk to members?

Were some group or community benefits, rather than just individual benefits, created? Was the group able to raise the level of technology used for agricultural production in the area? Did it want to increase the variety of goods in the local market? Was it going to give young people income opportunities in the village so they would not be drawn off into the cities? Have such goals been achieved? These kinds of considerations do not require fancy statistical techniques. Simple data gathering is usually sufficient. Is there any evidence of the spread of better technology? Of wider selection in the marketplace? Or of young people remaining in the community? Members can make informed judgments about whether progress has been made or not in these various directions.

Another kind of evaluation is also important, and that is of the capacities of the group enterprise itself. How strong is the group's ability to manage its own affairs? How are meetings conducted? Efficiently? Conclusively? How broad is the number of members willing and able to take leadership responsibility? How good are communications within the group? How good are its linkages with government and other outside agencies? In keeping with the philosophy of the People's Participation Programme, such evaluation is best done in a participatory manner. Recognizing this, a simple methodology has been worked out for PPP groups that builds on experience with small farmer groups in Sri Lanka, in what was characterized there as a "self-strengthening" exercise for grassroots organization.[6]

[6]See A Field Methodology for Participatory Self-Evaluation of P.P.P. Group and Inter-Group Association Performance, prepared by Norman Uphoff for the PPP, May 1989, available from PPP country coordinators or from the FAO/PPP headquarters in Rome. The concept of "self-evaluation" was difficult to translate into the Sinhala language, so the process was called more comprehensibly, and appropriately, "self-strengthening." This methodology is presented in "Evaluation of Farmer Organizations' Capacity for Development Tasks," Agricultural Administration and Extension, 30:1 (1988), having been originally prepared for a PPP workshop in Ghana.

For group enterprise management, the most basic thing is to build evaluation into the schedule and plan of activities. Evaluation is something easily postponed, then delayed, then forgotten. It is easily displaced by the apparently more urgent business of current operations and problem-solving. These activities can take up so much time and energy that regular, thoughtful evaluation of the enterprise's progress and shortcomings does not get done by the group.

Groups should plan regular meetings in any case, whether once a month, every fortnight (every two weeks), or even weekly. These meetings should have an agenda that is agreed on by all attending, stating in advance what will be discussed and, it is hoped, decided. If meetings tend to take a long time, or to drift from subject to subject, members should agree in advance how much time they want to spend on each item. By mutual agreement more time can be spent on a subject if the amount planned for it on the agenda is exhausted. But at least there should be target allocations of time.

Some time should be spent on **old business**, following up on earlier discussions and agreements, to ensure that the desired results were obtained, or decisions not reached previously are now made. Some time may be spent on **new business,** taking a loan, contracting with a new supplier, changing the basis for sharing income, etc. In addition, some time should be devoted on a regular basis to **evaluation,** assessing record keeping, inventory management, the effectiveness of committees, the sharing of work loads, the participation of women and young people in the enterprise, and so forth.

We have not proposed here any formal system of evaluation. The circumstances of most PPP groups and IGAs vary too widely to have a standard method for evaluation. But we would point to three major kinds of evaluation:

> The problem-solving approach proposed already requires some periodic assessment of how satisfactorily the group's priority problems have been dealt with, and of the enterprise's situation, to decide on any new priority problems deserving focused group effort for solution. So evaluation can be undertaken as part of the structured problem-solving process laid out in Chapter 2.
>
> The system of record-keeping and accounting discussed in Chapter 6 presents another focus for evaluation activities, reviewing an enterprise's profit-and-loss statement, or its inventory of assets. With a good set of records in hand, the group should periodically review each record, discussing it so that all members understand its purpose and what it tells them about the performance of their enterprise.
>
> A third kind of evaluation is the self-evaluation methodology noted above and being introduced in a number of PPP country programs. This aims at strengthening the group's self-management capabilities so that it can better solve various problems and take advantage of diverse opportunities as they arise.

These are quite different kinds of evaluation, but each serves an important purpose for group enterprises. Group Promoters should discuss with groups and IGAs which kind of evaluation to start with. If all three are introduced at once, none is likely to be done very thoroughly, and enthusiasm for evaluation will diminish. Once one kind has been started successfully, another kind should be introduced, and eventually the third.

A group enterprise which has established all three kinds of evaluation -- as part of systematic problem-solving, as a review of the several kinds of financial and other management records and accounts, and as a strategy for strengthening the group's self-management capacity -- will be in a *very strong position* to succeed in all the ways that its members desire.

QUESTIONS FOR DISCUSSION

-- WHICH OF THE THREE EVALUATION APPROACHES DISCUSSED ABOVE WOULD BE THE MOST BENEFICIAL FOR YOUR GROUP?

-- HOW FREQUENTLY SHOULD A GROUP DEVOTE TIME TO EVALUATION OF ITS PERFORMANCE AND CAPACITIES?

-- WHEN EVALUATION IS UNDERTAKEN AS A GROUP ACTIVITY, HOW MUCH TIME SHOULD BE SPENT ON IT? AN HOUR? TWO HOURS? A MORNING? AN AFTERNOON? AN EVENING?

-- WHO SHOULD BE RESPONSIBLE FOR LEADING DISCUSSIONS ON EVALUATION? THE CHAIRMAN? THE SECRETARY? SOMEONE CHOSEN SPECIFICALLY TO BE THE GROUP'S EVALUATION COORDINATOR?

8. SPECIAL PROBLEM AREAS

In this concluding chapter, we review some of the areas in which PPP groups have experienced the most difficulties. As noted in the Introduction, in a manual like this we cannot get into great detail. The basic ideas and principles once understood by Group Promoters can be elaborated in discussions to help groups and IGAs solve their own problems.

Managing Credit and Debt

In most of the PPP case studies, groups have expressed an overwhelming need for credit, so it is appropriate to begin with a discussion of this. When a group thinks about getting a loan, it is important that members have a specific purpose in mind or a specific purchase planned that is related to the enterprise. Most groups can think of many attractive uses for additional funds: buying more equipment or new, better equipment, putting more goods in stock, allowing customers to have more credit, improving the business locale, buying raw materials in bulk to lower their price, reaching new markets by purchasing means of transport. But not all uses of money will be profitable -- bringing in enough additional revenue to cover the cost of the additional capital expenditure. Money borrowed needs to be repaid, usually with some interest. Depending on the conditions of the loan, the amounts of repayment and interest can *sink the enterprise.*

Both the amount of money borrowed and the terms on which it is borrowed are crucial considerations. Keeping the amount to a minimum is a good idea, by getting a most favorable price possible when purchasing equipment, for example, taking the time to get many bids from suppliers, or by expanding operations less than initially discussed, or by mobilizing some additional capital from among the members to reduce the amount that must be covered by the loan. The terms on which money is borrowed can vary widely, not just in terms of the percent of interest required, but also the grace period (how long before repayment begins), the maturity of the loan (by when it must be fully repaid), and the repayment schedule.

Some loans require repayment in equal installments, so that borrowers must begin repaying what was borrowed before there has been time to expand the stream of added revenue that justified taking the loan in the first place. Some loans are attractive because most of the repayment can be deferred until later in the loan period. But then the group may find it difficult to make very large payments. And the most problematic may be loans which fall due at the end of a specified period, when the whole amount, with interest, must be repaid. Having been free of previous repayments improves the cash operating position of the enterprise, but members may be deceiving themselves and destroying their business if they have not been setting aside funds for repayment of the loan when due.

It is important that groups, facing a need for more working capital or investment capital, consider whether funds can be mobilized internally before taking on external obligations, either a loan from a bank or credit from a supplier. If the additional funds are obtained from outside the enterprise, Group Promoters and group officers should stress the fact that these outside funds are liabilities, and the group is incurring obligations to some institution or business by agreeing to a loan or credit. Loans or credits have to be repaid with interest and can end up costing a group twice as much as they borrowed from the bank or would have paid the supplier in cash at the time of purchase. Where a loan or credit cannot be repaid and the group has pledged some assets as security, like equipment or harvest, the group risks losing these as a result.

Funds acquired internally are free of such hazards. They can come from two sources, from the members or from the enterprise. Members can individually contribute some more money to the enterprise as share capital. This form of contribution does not usually bear any interest, since members stand to earn greater profits to the extent that the investment raises enterprise revenue. This is most feasible if all members are in a position to contribute an equal amount.

A group could decide to borrow the additional money from its members. This happens more often when some members are in a better position than others to provide capital to the enterprise. Because they are members, they are likely to agree to receive only as much interest as they would have gotten if they had put the money into a savings account. This will be less than the group would have to pay for a regular institutional loan. The advantage of borrowing from members is that security is seldom required, and there can be more flexibility in the repayment schedule. But this does not mean that such loans should not be regarded as seriously as any from a bank. Failure of a group to meet its repayment obligations to some members can cause the group to break up.

The group may find that it can finance all or at least some of its cash needs from the enterprise itself. By putting a share of profits into a reserve fund, the enterprise can become at least partly self-financing for its capital needs. Members should realize that they are giving up some income they might have gotten directly, but they save by avoiding paying bank rates of interest when the enterprise needs money, and the enterprise has the flexibility to take advantage of commercial and other opportunities that arise.

By careful examination of the enterprise's own finances, it may be possible to discover sources of funding that can be tapped. The most obvious is to collect accounts receivable, money owed to the enterprise by individuals or organizations that have received its goods or services on credit (that is, without paying for them). Keeping accounts receivable to a minimum, through good customer relations and persistent follow-up, is always advisable. Sometimes this amount, which is really a loan to customers, can gradually increase until it represents a substantial potential source of capital. The longer an amount is owed, the less likely it is to be collected. (People move away, die, forget, become stubborn, etc.) So an enterprise cannot reliably "build up capital" by letting its accounts receivable grow.

Instead of borrowing from a bank, the group may get equipment or raw materials through suppliers' credits. Especially if a group has bought goods from a certain supplier over time and is well known and trusted, the supplier may well extend credit, charging some rate of interest after a grace period. This rate may be higher or lower than a bank's rate. It is important that the group not to get locked into buying from a high-priced supplier who is willing to extend credit.

A favorable price of goods or services, it should be remembers, can be more beneficial than getting them on credit.

Credit is no solution or substitute for good financial management, including adequate record-keeping and careful calculation and evaluation concerning financial operations. As a general rule, if inventory or debts amount to more than twice the amount of monthly sales, they are likely too high and should probably be lowered. Another rule of thumb is that the enterprise should have at least as much money in the form of cash, bank savings, and money owed to it by customers as it owes to suppliers. The total debts of a business must be less than the total of its cash, bank balances, and accounts receivable. In order to calculate this, it will be necessary to maintain the kind of balance sheet and profit-and-loss statement described in Chapter 6. Financial analysis requires a thorough analysis of business assets and considerable practice. Initially, the group may want to solicit some outside assistance, perhaps inviting a local banker or businessman to meet with it as a kind of public service to promote local enterprise.

QUESTIONS

-- WHEN PRICES IN THE COUNTRY ARE INCREASING VERY RAPIDLY, IS IT WISE TO BORROW MONEY OR NOT? This question can get the group to think about "economics" in a very practical way. The right answer is "generally yes," because the money which is used to repay the loan is worth less than the money received from the loan.

-- IF PRICES ARE RISING BY 10% A YEAR, DOES IT MAKE SENSE FOR A GROUP TO DEPOSIT ITS RESERVE FUNDS IN A BANK THAT PAYS ONLY 5% RATE OF INTEREST? The answer depends on what the alternatives are. If the money deposited with the bank is safe, this is of some value to the group. But the money taken out after a year even with the 5% interest added will be worth less than the money that was deposited. Under such circumstances, the group may want to lend out its money privately at an interest rate higher than 10%, even if this involves some more risk of losing the money than putting it in the bank. The group would need to weigh this risk against the loss in value of money deposited in the bank.

Inventory Management

Although "inventory" refers to both unsold products as enterprise outputs and to unprocessed raw materials or other inputs, "inventory management" usually refers to dealing with the first -- outputs. Inputs or raw materials are usually referred to as stock, including things like seeds and fertilizer for agricultural enterprises. Groups can sometimes reduce their costs of operation, and thus increase their profits, by more effective management of inventory and stock.

Large enterprises are likely to have special facilities built to store and protect both inventory and stock, but few PPP enterprises will, at least at the outset, have special buildings for this purpose. Small groups face predictable problems. They need to keep their inventory and stock (a) secure, (b) clean, and (c) easy to gain access to (among other things, easy to count). Groups which fail to provide adequately for inventory storage will find themselves faced with loss of goods because of spoilage or theft.

Sometimes facilities that would give good protection at a reasonable cost to the group are not conveniently located, that is, near to the place of production or sales. In that case, the group must consider the tradeoff between (a) having convenient access to raw materials or other inputs and unsold products, and (b) keeping these well-protected, safe from spoilage or theft. Where safe facilities are inconveniently located, or convenient facilities are unsafe, the group may decide it is worthwhile investing in construction, purchase or rental of facilities that are safer and/or more convenient.

Group members should be encouraged to take an active attitude toward inventory and stock management. They should be alert to the causes of loss or deterioration, such as dampness, insects, rodents, excessive heat, theft, or dirt. Some losses can come through carelessness in keeping records of what and how much was put into storage, and of what and how much has been taken out. Simple inventory charts should be maintained, with members marking down all changes, increases and decreases, recording not only numbers but also dates and who made the addition or withdrawal.

Inventory charts should be set up in such a way that the totals for each item in storage are clear and can be easily checked. Inventory management requires periodic checking: (a) to ensure that the totals in stock match those written in the records, and (b) to know whether the condition of materials and products is satisfactory. If either differences in totals or damages to goods are observed, this should be taken up with the membership to engage in problem-solving, to decide what corrective actions to take. Inventory losses represent income taken out of the pockets of members, so all should be concerned to find quick, effective solutions.

Once the group has a satisfactory system for this most elementary kind of inventory management, it should assess what are the appropriate levels of inventory to maintain. How much of the various raw materials or other inputs should it have in stock at different times of the year? How much of its product (flour, bread, baskets) should it have on hand in inventory? To have *too little* of either inputs or outputs available will reduce the group's chances of increasing its income. To have *too much* of either inputs or outputs is likewise wasteful, because it ties up enterprise resources in unproductive ways. It also increases the possibility of losses through spoilage or theft. The purposes of inventory and stock management for small enterprises can be summarized as follow.[7]

[7] These and other issues are thoroughly covered by Malcolm Harper in his manual on Consultancy for Small Businesses, about which more information is given in the Annex.

(1) to increase sales and profits by facilitating optimum turnover in production, not tying up enterprise resources in unsold or unsellable products, or in unneeded or unusable inputs.

(2) to use working capital advantageously by purchasing raw materials and other inputs on the best possible terms, of the appropriate kinds and in the right amounts.

(3) to serve the needs and wants of customers better, by having an adequate, even attractive selection available, and

(4) to provide protection against spoilage and theft, as discussed aboves

What constitute "adequate" amounts in stock or in inventory will depend on many considerations like:

-- the difficulty of getting more inputs when their supply runs low,

-- the likelihood of losing sales when customer demand cannot be met immediately,

-- transport distance and cost,

-- seasonal availability or unavailability of goods,

-- competitors' inventory situation,

-- the cost of working capital (interest that must be paid if money has to be borrowed for stocking up),

-- the reliability of inventory controls protecting enterprise property,

-- the rate of inflation of prices (when price inflation is great, holding enterprise assets as physical products or raw materials is preferable to having them in the form of money).

To be sure that stock and inventory do not run low, some group members should be assigned responsibility for checking regularly on stock and inventory levels. This information should be compared with two rates: (1) of use -- how much constitutes a week's or a month's or a season's supply? and (2) of sales -- how much gets sold in a normal week, month or or season? Where sales are likely to be unusually large or small at a particular time of year, specific levels for that time of year should be the standard for comparison rather than some general average.

The group should know how long it takes to replenish stock and inventory: (a) by making purchases from suppliers, or (b) by producing the goods itself. Just how large the group's stocks and inventories should be for its desired profitability will depend on these rates:

(a) How long does it take to restock raw materials and any other inputs compared to how rapidly are they being used up?

(b) How long does it take to build up inventory compared how quickly it is reduced by sales?

With such knowledge, the group can decide on appropriate stock and inventory levels that it will seek to maintain and should incorporate them into its *plan of operation* as discussed in Chapter 6.

QUESTIONS

-- WHAT KIND OF SCHEDULE FOR CHECKING INVENTORY AND STOCKS IS BEST FOR THE GROUP? WEEKLY? EVERY TWO WEEKS? MONTHLY? WHY?

-- WHO IS RESPONSIBLE FOR LOSSES OF INVENTORY THROUGHTHEFT OR SPOILAGE?

-- BUILDING OR RENTING SPECIAL FACILITIES FOR STORING STOCKS OR UNSOLD PRODUCTS COSTS MONEY. WHAT WOULD BE THE MONEY BENEFITS FROM SUCH FACILITIES IF THEY ARE MORE CONVENIENT AND SAFER? (the value of time saved can be counted as well as direct savings from fewer losses through theft or spoilage. These losses can and should be estimated clearly.)

Delegating Authority and Responsibility

Groups often have difficulty making assignments of responsibility and of structuring authority within their small organizations. Because it is not large and because members invariably prefer to work in an informal manner, there is a tendency to leave all decisions to the group as a whole. But there is a danger that if everybody is responsible, then nobody is responsible. Leaving assignments of responsibility ambiguous can be very hazardous to an enterprise's health.

Some persons in any group tend to be more "responsible" as individuals than are others because there are differences in personality. Some persons spend some of their time willingly and effectively thinking about consequences, and they are sensitive to how these affect not just themselves but also others. Such persons tend to assume -- or to be given -- leadership responsibilities, to act on behalf of the group. It is good if they take such responsibilities out of concern for the well-being of everyone not for personal prestige or financial advantage.

-- HOW IMPORTANT IS IT THAT THE GROUP KNOW ITS NET WORTH? HOW OFTEN SHOULD THIS BE CALCULATED?

-- SHOULD EXTRA COMPENSATION BE PAID TO MEMBERS WHO TAKE ON SPECIAL RESPONSIBILITY FOR THE ENTERPRISE'S ECONOMIC MANAGEMENT? OR WHO HAVE SPECIAL SKILLS SUCH AS MOTOR MECHANICS?

Unfortunately, the number of persons who have the best of motivation is not very large anywhere. Personal or family interests can intrude on what started out as idealistic motives. There can be misunderstandings and criticisms that spoil the relation between an individual and the group. Even strong and willing shoulders can grow tired of carrying the burden for others. So groups must be very sensitive to the issue of leadership. With good, committed, responsible leadership, most groups can thrive. Without it, no group can survive for very long.

It is important that groups discuss openly and thoroughly the question of leadership and responsibility. Who should be asked to speak or act or decide in the name of the group? On what matters? With what limitations? Some matters should always be put to the whole group for decision-making, but others can and should be delegated to get quicker and more consistent decisions. Some matters are not worth taking the whole group's time for. This is an area in which misunderstandings can easily arise if clear delegation and limits of authority for the group are not set. Disagreement over decisions or even over how decisions are to be made (even if there is no dissatisfaction with the decision) can be destructive for a group.

Groups can make decisions in three ways: (a) by the whole group acting as an assembly, (b) by a committee of members, or (c) by an individual to whom authority has been delegated in some manner (chairman, secretary, whoever). The best arrangement is likely to be some combination of all three. Some things the whole group should decide, such as whether to borrow money or to start a new line of production. Other things a committee can decide, such as a committee to handle finances (for example, the treasurer and two other members), to sign checks and prepare a financial report to the membership. Still other matters can be given to one person, such as setting the weekly work schedules for members or deciding when to stop selling at the end of a market day.

Tasks that do not involve the whole group can be rotated to ensure that burdens are shared fairly, or to develop leadership experience and skill throughout the group. If the group agrees, some tasks can be left with one or a few members for a long period of time, because they handle them well or because they handle them with relatively little effort (If someone is very good with numbers, he or she might take care of group finances for some years, rather than rotate this responsibility to someone less comfortable with numbers; or if someone owns a truck, he or she might transport raw materials from the supplier when travelling along that route for other reasons.)

It is important that no member, however, acquire a sense that he or she owns any group task. Similarly, the group should not come to believe that a certain task will always or only be the responsibility of one member. This would make the group vulnerable to collapse if that person were for any reason to leave or to refuse to continue doing that work. One of the signs of a healthy group enterprise is that a large number -- ideally all -- of its members are ready, willing and able to assume any responsibility within the organization. This means people have both the experience and confidence to do the work. (Confidence is a two-way street -including the confidence of fellow members in one's ability to do the job, as well as self-confidence.)

Whoever accepts responsibility for group activities must devote more time to this than do others without such responsibility (unless all have equal responsibility). It may be thought appropriate for the group to exempt such persons with greater management responsibilities from certain duties in enterprise operation (such as giving them shorter work shifts) or to pay the member something for his or her extra time. Most small groups avoid the latter, preferring to keep all positions of responsibility "honorary." If the work is demanding, it is usually preferable to rotate the responsibility and keep it a voluntary task. This strengthens the position of the person with the responsibility because he or she is then not an "employee" of the group but rather someone performing a service for others and thus better able to get compliance with reasonable requests.

In any case, groups should provide reimbursement for any out-of-pocket expenses that members having special responsibilities must incur, like busfare for travel to the district center to renew a permit, or postage for group correspondence. If the work is done for the group, such expenses should be paid by the group, rather than add to the burden of responsibility which can spoil members' willingness to take on special tasks. Only if a responsibility is strictly rotated among all members should payment of incidental expenses be left to the individual.

The larger the pool of members willing and able to assume leadership responsibilities within the group, the better are the enterprise's prospects for success. Whenever more than one person is willing to take on leadership responsibilities, there is the possibility that the group will experience competition that can divide it into factions or create ill feelings. Where there are a number of suitable candidates, it is good to limit the terms of office and to rotate responsibilities. Also, many groups have found it best to make all decisions on leadership by consensus, rather than by ballot. In a small group, it should not be necessary to have formal elections. If there is so much division among members that they cannot agree on who should serve in different roles, the spirit of cooperation and mutual confidence needed to sustain an enterprise is probably already lost.

There is no one or ideal way to handle delegation of authority and responsibility in a group enterprise. But we can say something about the process whereby such delegation occurs. First, it should be done with full discussion involving all members, and second, as much as possible, it should be decided by consensus. Third, agreements should be explicit and clear so there are no misunderstandings later on. With such a process, groups should be able to make effective assignments and delegations of authority.

QUESTIONS

-- SOMETIMES IT IS ARGUED THAT "ROTATION" OF LEADERSHIP IS NOT NECESSARY OR APPROPRIATE, THAT GROUPS SHOULD BUILD UP EXPERIENCE IN A FEW PERSONS AND THEN BENEFIT FROM THAT EXPERIENCE. WHAT ARE THE REASONS WHY A GROUP MIGHT DECIDE TO ROTATE RESPONSIBILITIES AMONG MEMBERS? WHY MIGHT IT DECIDE NOT TO ROTATE RESPONSIBILITIES? HOW SHOULD DISAGREEMENTS ON THIS MATTER BE RESOLVED?

-- WHAT KINDS OF DECISIONS ARE BEST MADE BY THE FULL MEMBERSHIP OF A GROUP? WHAT KINDS OF DECISIONS ARE APPROPRIATE FOR A COMMITTEE MADE UP OF A SUB-GROUP WITHIN THE MEMBERSHIP? WHAT KINDS OF DECISIONS ARE BEST LEFT TO A SELECTED INDIVIDUAL?

-- HOW OFTEN SHOULD A GROUP REVIEW AND MAYBE CHANGE WHAT DECISIONS ARE ASSIGNED TO INDIVIDUALS OR COMMITTEES RATHER THAN BE MADE BY THE WHOLE GROUP? WHAT WOULD BE THE REASONS FOR MAKING A CHANGE?

Marketing and Quality Control

All enterprises face problems of marketing and quality control to some extent, though the seriousness and nature of these problems will vary. A group producing maize may have little difficulty selling it (though not always at the price it would like), and having better quality maize might or might not yield a higher price. But most groups need to pay some, even a lot of attention to marketing and to ensuring a high and consistent quality to their output. Even if they are providing services rather than selling goods, marketing and quality control are usually important.

Marketing includes all the steps between production and delivery of the final product or service to the consumer. For goods, marketing can be seen as the entire process of distributing or delivering the correctly designed and manufactured product to the right person, at the right time and place, at an acceptable price.[8]

[8]The manual on Small Enterprise Development prepared for and published by the U.S. Peace Corps (1986) defines marketing this way (p. 84). For information on this and other sourcebooks, see the Annex (pages 77-79).

The information needed to accomplish this task will assist the group in making decisions about marketing that improve its profit position. Groups should bear in mind that the customer is the crucial person in this process because customer satisfaction will greatly affect the ultimate success of the group enterprise. This is where quality control makes a major contribution.

The definition used above provides a series of focuses that can help to analyze and improve marketing:

(a) Process: Good marketing is a long and continuous process, beginning before the production process starts and continuing after the product is sold or delivered to the customer. Once the product has been sold, the group should want to know whether or not the customers were satisfied with the product, and what changes could be made to improve the product.[9]

[9]By "products" we mean both goods and services, even though they have some different characteristics. We use the term "customer" to mean purchaser, not necessarily the final consumer. The person to be satisfied may, at least initially, be a merchant or a middleman who resells the commodity. In such instances, enterprises need to be concerned with the satisfaction of both purchaser and consumer, both of whom may be considered as the "customers."

(b) Distribution: Groups will need to decide who should sell their products. A group can usually earn more profit by selling directly to the consumer, but this is not always possible. Special skills or contacts may be needed (sometimes marketing is monopolized by certain persons) or the costs of direct marketing could be greater than any additional revenue that could be earned from direct sales.

If group members decide to sell through a middleman, they must find a reliable one who will give them a fair price for their product. The main costs of marketing are transportation and the labor time required for this and for selling. Often some cooperative arrangement can be worked out with other producers to share these costs to mutual advantage (if there is no "cutthroat competition" among producers.

(c) Delivery: Timely delivery of the produce or service -- when this has been promised -- is very important. Timeliness will make it more likely that the product delivered is of the quality intended and should establish a good reputation among customers for the entereprise.

(d) Design: The group should use any feedback it gets about customer satisfaction -- and especially dissatisfaction -- to modify the design of the final product to appeal most effectively to customers. This may refer to sizes and shapes, levels of quality, processing and packaging, etc.

(e) Right Persons: Most groups will discover that it is relatively easy to make a single sale. The difficult part is to establish regular customers. These are the key to enterprise success. Groups should consider conducting market surveys to find out why some customers purchase their product, and what may lead them to buy it again and again. Price? Durability? Color? Friendliness of the salesperson?

(f) Right Time and Place: Being the first supplier in a given place, with a quality produce, is any producer's dream. Even if a group can produce and deliver "the right product," but it arrives late in the market, the enterprise will run into trouble.

(g) Acceptable Price: Price, along with quality, is a major factor determining whether or not a customer will purchase a product The price asked for must be high enough to cover costs of production and leave a profit, but not so high that customers are unable to afford it, and not higher than alternative competing products that are available.

A third factor comes also into consideration: convenience. A price may be judged "acceptable" not because it is the lowest one or because the quality is particularly good, but because the product is easy to buy -- so long as the price is not excessive and the quality not too low. Enterprises may compensate for somewhat higher costs of production and lower quality of their goods or services by making them very convenient to customers, which is another aspect of "right time and place."

An additional aspect of marketing is promotion, which applies to different enterprises in different ways. Potential customers need all kinds of information on products communicated to them. If they do not know where they can buy a product, when, how much it will cost, and what the quality will be, they are unlikely to buy it. The concept of promotion should not be regarded only as advertising, but as all the ways in which potential customers can learn about a product.

Members will all be familiar with marketing at least from the perspective of customers. They should draw on this self-knowledge in planning marketing strategies for their own goods and services to be sold. What would "work" with them? Beyond this, they should visit market places, to observe how other producers are marketing their products, to think of appropriate plans for promoting and selling their own goods and services.

Even once a group has established a marketing plan and is implementing this, it should be open to new opportunities for increasing the enterprise's production and profit. Two things in particular can be done. The group can conduct consumer surveys as suggested above, not only to keep products and services up to date but to find out if customers would buy more of the product or buy new products. If the market is already well supplied with certain goods or services and customers don't seem willing to purchase any more, the group can consider diversifying into new lines of activity.

Second, a group can test what kinds of goods or services customers would be interested in by producing small batches of new goods (or by making available limited amounts of new services) to see how popular they are in the marketplace before making the investment to produce (provide) them on a larger scale.[10] An additional way to increase sales is to find new markets or new uses for what the group produces already. What may have been sold in the local market previously might be sold to tourists as well, or instead of selling maize by the bag, some of it might be milled into corn meal for sale in processed form with greater profit.

[10]These methods and ideas are discussed in Marketing Strategies: Training Activities for Entrepreneurs by Suzanne Kindervatter with Maggie Range, published by the Overseas Education Fund, Washington, D.C., 1986.

In order to establish a regular demand for its products, the group must ensure their good and reliable quality. There can be many reasons for lapses in quality, but the most common ones are low quality raw materials, which result in inferior or damaged goods, and an emphasis on quantity rather than on quality.[11]

[11] These reasons are discussed in the Peace Corps manual on Small Enterprise Development, op. cit.

The group should include in its *plan of operation* some provision for testing and ensuring quality control. Visual inspection of at least some, if not all, of the products on a regular basis is important to monitor quality. Pieces chosen for review can be chosen on a regular (every tenth, every hundredth, etc.) basis or on a random basis (picking pieces out from time to time). Do bricks look properly square and well-baked? Do shirts have seams that are straight and well sewn? Is the flour being ground all of the same color and fineness? Beyond this some testing, on a regular or random basis, is appropriate to ensure quality -- to see if bricks are strong enough, if the clothes do not shrink or lose their color when washed, if the meal tastes good when baked into bread. When deficiencies are discovered, the group should try first to correct them itself, employing the problem-solving process described in Chapter 2. If sufficient improvement is not possible this way, the group may need to get outside technical advice, which the GP can be asked to facilitate.

QUESTIONS

-- WHAT ADVERTISING METHODS COULD BE USEFUL FOR PROMOTING SALES OF THE GROUP'S PRODUCT OR SERVICES?

-- WHAT ARE THE ADVANTAGES AND POSSIBILITIES OF SELLING THROUGH A MIDDLEMAN COMPARED TO SELLING DIRECTLY TO CONSUMERS?

-- WHEN SHOULD A GROUP GIVE A DISCOUNT (REDUCED PRICE) TO PURCHASERS OF LARGE QUANTITIES OF THEIR GOODS OR SERVICES? WHAT DO THEY NEED TO KNOW ABOUT THEIR COSTS OF PRODUCTION TO BE ABLE TO KNOW HOW MUCH OF A DISCOUNT THEY CAN GIVE WHICH WILL BENEFIT BOTH THEM AND THE LARGE PURCHASER?

-- SHOULD QUALITY CONTROL BE THE RESPONSIBILITY OF ALL MEMBERS OR INSTEAD ASSIGNED TO CERTAIN MEMBERS?

-- HOW MUCH TESTING OF QUALITY SHOULD BE DONE ON A REGULAR BASIS? This costs the group some money since it cannot sell what is tested. But testing should increase overall sales by assuring good quality. So these two considerations need to be balanced to arrive at an answer.

-- HOW MUCH VARIETY SHOULD A GROUP PRODUCE IN ORDER TO CATER TO THE SPECIAL TASTES OF CONSUMERS? Producing a lot of a single kind of good or service is more efficient as costs of production per unit become lower. Producing more varied goods and services is costlier per unit but these appeal to a wider variety of customers. These considerations need to be balanced to arrive at a profitable outcome.

Appropriate Technology

A major category of choices which group enterprises must make concerns the technology to be used, whether for agricultural or non-agricultural production. It does not help simply to advice groups to choose "appropriate" technology since they should not and would not want inappropriate technology. The question is what kinds of technology will be appropriate? This cannot be answered the same way for all enterprises.

Two main goals of appropriate technology are consistent with those of group enterprises: self-reliance, and local production. There are many definitions of appropriate technology. The following guidelines may help groups identify what technology or technologies are appropriate for their circumstances and goals. "Appropriate technology" should meet the following criteria:[12]

[12]These criteria are adapted from the Appropriate Technology Sourcebook by Ken Darrow and Mike Saxenian, published by Volunteers in Asia (1986). How to obtain this book is discussed in the Annex.

1) requires only small amounts of capital.

2) emphasizes the use of locally available materials, in order to lower costs and reduce problems of input supply,

3) is relatively labor-intensive, but more productive than many "traditional" technologies,

4) is small enough in scale to be affordable by individual families or small groups,

5) can be understood, controlled and maintained by villagers without a high level of specialized training,

6) is produced in villages or small workshops.

7) is comprehensible enough to offer local people opportunities to become themselves involved in the process of technology modification and innovation.

8) is flexible and can be adapted to different places and changing circumstances, and

9) is used in productive ways without doing harm to the environment.

The use of appropriate technology can be an important factor in decreasing costs of production and other losses, thus increasing potential profits. For example, inadequate crop drying and storage facilities cause big losses to agricultural production. Properly constructed and protected solar dryers can cost very little and save groups money, thus promoting the sustainability of the group enterprise. Other types of appropriate technology that might assist groups are improved agricultural tools such as simple hand pumps or other equipment which can conserve on resources such as water or expensive fertilizers.

The benefits of appropriate technology depend not only on the technology but on how it is used. That technology is simple does not mean everyone will understand and be able to manage it without some training. It is important that as many members as possible learn how to use new dryers, pumps, drainage facilities, whatever, so that the group is not dependent on just one or two persons for their operation. Special efforts should be made to ensure that women and younger members become knowledgeable about the technology. The success of new techno-logies will be enhanced if they are based on or related to familiar technologies, rather than being completely new, imported ones.

The purpose of technology is to assist the production process in one or more of the following ways. Groups should be clear about what they expect the technology to do for them:

1) transform inputs into outputs more quickly, cheaply, reliably, such as power saws and sanders that speed up making furniture,
2) permit making new or better products not possible with older techniques, such as constructing ponds for fish farming,
3) permit use of new raw materials, opening up new production possibilities, such as tools that can grind harder precious stone,
4) facilitate storing or preservation of products, with little or no loss of value, such as solar dryers,
5) facilitate transportation of products to market for sale, giving more profit from what is already produced, such as donkey carts where people previously used to have to headload their goods,
6) assist in enterprise management, e.g., record-keeping, data analysis or inventory control, such as adding machines.

There can be other kinds of technology but these are the main ones to be considered. Group enterprises should think about investing in the upgrading of their technologies where clear benefits can be identified. Working with old, laborious and not very remunerative techniques can be demoralizing. The group approach builds on traditional values and social relations but not necessarily on "traditional" modes of production. It should be flexible and efficient because this is in the interests of its members. The group enterprise exists for their benefit, and therefore, technology should be examined and chosen with a view to the advantages it can bring to the members and also to the general public which consumes their goods and utilizes their services.

QUESTIONS

-- WHEN MAY IT NOT BE A GOOD IDEA FOR A GROUP TO USE ‘THE MOST MODERN” TECHNOLOGY THAT IS AVAILABLE?

-- IS ‘TECHNOLOGY” THE SAME THING AS MACHINERY OR EQUIPMENT? WHAT ARE EXAMPLES OF TECHNOLOGY THAT IS SOMETHING OTHER THAN MACHINERY AND EQUIPMENT?

-- WHICH OF THE CRITERIA OF “APPROPRIATENESS” FOR CHOOSING TECHNOLOGY ARE MOST RELEVANT FOR YOUR GROUP?

ANNEX: RESOURCE GUIDE FOR GROUP ENTERPRISE

In preparing this Field Training Guide, we consulted various source materials for group enterprise development. Some of these would be useful for PPP country programs and Group Promoters to have as reference materials for working with groups and IGAs. Accordingly we provide information on sources relevant to group enterprise development.

The Overseas Education Fund (OEF) in Washington, D.C., has written a series of manuals designed to be used by experienced trainers, extension agents, or programmers who work with Third World micro and small entrepreneurs. The training activities are based on participatory methods, and the manuals include photographs and examples from real businesses. The manuals pay special attention to the problems faced by women entrepreneurs, but the methods presented are of use to all types of small enterprise.

Doing a Feasibility Study: Training Activities for Starting or Reviewing a Small Business. This guide includes instructions for developing business plans and budgets, and how to investigate market demand, costs, and income projections. It is available in English, French and Spanish. The English version costs $12.50, the others $14.50.

Marketing Strategy: Training Activities for Entrepreneurs. This guide is designed for groups with already *operating* businesses and features a board game introducing four key aspects of marketing: product, distribution, promotion, and price. The game has proved to be effective with both literate and illiterate groups. It is available in English, French and Spanish. All versions cost $15.00.

Shipping costs for surface delivery are 20% (time for delivery overseas is 6-12 weeks), and 60% by air mail. Payment must be made in U.S. currency, either by U.S. bank draft or international money order. Checks should made be payable to: OEF International Publications. Additional information can be obtained from the address below or by calling (202) 466-3430. Both guides can be ordered from: OEF International, 1815 H Street N.W., 11th floor, Washington, D.C. 20006 USA.

Volunteers in Asia has developed the *Appropriate Technology Sourcebook* as a guide to practical books on technology useful at the village or small-scale enterprise level. The new edition reviews the contents of 1,150 publications from international and U.S. sources, covering topics such as small water supply systems, renewable energy devices, agricultural tools and implements, crop preservation, small business management techniques, and facilities for small industries. The *Sourcebook* gives complete information on the price and ordering procedures for each publication. The regular price is $17.95, but for local groups in developing countries, the price is $9.00, plus $2.00 for postage in the U.S. or $3.00 overseas. To order, write to:

Appropriate Technology Project
Volunteers in Asia
P. O. Box 4543
Stanford, California 94305 USA

The U.S. Peace Corps has prepared and published *Small Enterprise Development: An In-Service Training Manual* to assist Peace Corps Volunteers working with small enterprises in developing countries. The guide is divided into sections, each targeted at some aspect of business development, including quality control, production costing and pricing, budgeting, and accounting for non-literates. The guide is designed for trainers who have strong technical backgrounds or experience. Activities are described in some detail to make presentation easy.

Because the guide costs $20.00 (plus $20.00 for overseas shipping), it is more appropriate for PPP country program offices than for Group Promoters. It can be ordered from:

Educational Resources Information Clearing House
Document Reproduction Services
3900 Wheeler Avenue
Alexandria, VA 22304-5110

The document identification number for ordering this manual is: ED-288056. Information about this and other Peace Corps publications can be obtained from any in-country U.S. Peace Corps office or by writing to:

Peace Corps Information Collection and Exchange
Office of Training and Program Support
1990 K Street N.W.
Washington, D.C 20526 USA

The Intermediate Technology Development Group which has offices in both the U.K. and U.S. has supported a number of publications in this area. The most complete is *Consultancy for Small Businesses: The Concept - Training the Consultants* by Malcolm Harper (1986, 254 pages, $24.50). This manual is the result of a six-year experiment to provide an economic on-the-spot advisory service to small enterprises in developing countries. It provides some solutions to the perennial problems of small-scale entrepreneurs. Another, shorter publication is *Financial Management of a Small Handicraft Business* by Edward Mullard (1987, 38 pages, $6.50). This brief, practical introduction to the financial controls and indicators essential for the prudent management of handicraft businesses was originally prepared for Oxfam in India. Section headings include Cost Calculations, Pricing, Working Capital, and Financial Planning.

Then there are two collections of case studies, *Small Business Promotion: Case Studies from Developing Countries,* by Malcolm Harper and Kavil Ramachandran (1984, 144 pages, $11.50), and *Small Enterprises in Developing Countries: Case Studies and Conclusions,* by M. Harper and T. Thiam Soon (1979, 116 pages, $11.50). These collections describe failures as well as successes and provide stimulating material for students, teachers and businesspeople themselves, illuminating many of the problems facing small entrepreneurs and analyzes the attempts made to help them. These books can be ordered from: Intermediate Technology Publications, P. O. Box 337, Croton-on-Hudson, NY 10520. Shipping charges are $3.00 for the first title plus $0.75 for additional titles.

The Xavier Institute of Social Services in India has put out a book on *Training Village Entrepreneurs: Guidelines for Development Workers* (1980, 135 pages). This is based on years of selecting, motivating and training young people to start their own businesses. The authors identify many of the prime causes of failure, and suggest ways to improve the odds of success. The study is an attempt to translate entrepreneurial thinking into village-based action. The address of the Institute is Post Box 7, Purulia Road, Ranchi 834 001, India.