

## Enterprise Development Training Course

### DAY SIX - SESSION NINETEEN

#### Group or Individual Enterprise?

**Objective:** to enable participants to identify the advantages and disadvantages of group enterprises and to determine when group or individual enterprise is more appropriate.

**Time:** One and a half to two hours

#### Material and Advance Preparation

Copies of the "Basket-makers' Society" case study, or a modified version which is more relevant to the participants, should be given to all participants at the end of day five. They should be asked to work in the same groups into which they have already been organised for the field visits and to complete the assignment ready for this session.

#### Session Guide

1. Open the discussion on the Basket-makers' Society case study. Ask the spokesperson for one group to present their conclusions as to the mistakes which Simon made. List them on the board, using the group's own words when possible.
2. Ask the other groups in turn to identify any other mistakes which they think the earlier groups have missed. The following notes summarise the major mistakes. Elicit any items which participants have omitted, by asking appropriate questions.
  - The people themselves did not initiate the idea of the society and nobody made any plan as a basis for deciding whether the society would be viable or not.
  - Simon assumed that a co-operative would be able to do everything the middlemen did and still pay the members more.
  - Simon encouraged the people to have unrealistic expectations of what they might gain from the new society. The middlemen may indeed have been making extortionate profits, but they were performing essential functions which cost money. The new society would have to perform these tasks instead of the middlemen and the cost of them would have to be paid by the members. They should not have been led to expect that they would get the whole of the final selling price of the cloth themselves.
  - The ABC NGO provided grants to people who formed societies. This may have distorted their motives and encouraged them to form a society without really thinking through what was involved. Such special concessions are a form of 'bribe' which should not be needed if there is a genuine case for starting a society.
  - Simon welcomed the village elite into the society. They may well have been working with the middlemen and their interests would, in any case, not be the same as the rest of the members. They had perhaps 'hijacked' the society and tried to take it over to exploit the other members and to run it for their own profit.
  - Simon invited a local politician to be involved. He would most likely have been interested only in enlarging his 'vote bank' for the elections. He would probably have lost interest or even collaborated with the middlemen or the local elite to exploit the basket-makers in due course.

- Simon encouraged the new society to carry out a number of complex business tasks. In addition to the middlemen's traditional functions of raw material supply and local sales, they became involved in design, credit and the development of new marketing outlets. This was too much.
  - Simon did not take full responsibility for managing the society but nor did he allow their own manager to manage it on his own. The responsibility was not clear.
  - The ABC NGO more than once 'bailed out' the new society by making grants when it was in trouble. This may well have led the members to believe that they would never have to take real responsibility for its success or its failure.
3. Summarise the lessons that Simon should have learned from this experience, in the form of a simple list of guide-lines for NGO staff who may be involved in promoting group enterprises. Write them on the board, using participants' own words when possible. This might include the following:
- Avoid exaggerated expectations
  - Avoid 'bribes'
  - Avoid 'hijacking'
  - Avoid politicians
  - Avoid complexity - keep it simple
  - Avoid unclear responsibilities
  - Avoid 'bail-outs'

4. There are obviously a great many dangers associated with group enterprises which are not so likely to affect individual businesses. Ask participants what they know about the success record of group enterprises and official co-operatives in particular. It is generally bad, everywhere.

Ask participants what form of enterprise has been the driving force for the development of every national economy, everywhere. Clearly, co-operatives have played an important role in many countries, particularly in agriculture and credit, but individual private businesses have been the major 'engine of development'.

Refer to participants' enterprise experience businesses. They were free to set up individual enterprises, partnerships or larger group enterprises. There was nothing to prevent them from having established one group enterprise for all of them, with no risk of competition or duplication. Why did they not do this?

5. Ask participants to suggest why they, and most other people who start businesses without any external advice or intervention, usually start individual or small partnership businesses. What are the weaknesses of group or co-operative enterprises? Encourage suggestions such as:
- Decision-making is slow.
  - It is easy for some members to leave the work to others.
  - Groups can be 'hi-jacked' by special interests.
  - Groups are often permanently dependent on outside agencies.
  - It is harder to manage a group business than an individual one, because the members have to be persuaded and informed while workers have only to do what they are told.
  - People management is harder than in individual businesses

6. Remind participants about their answers to the question in the attitude questionnaire relating to group enterprises. Many government and NGO staff do believe that group enterprises are the best form of organisation for poor people's businesses, in spite of their poor record. Ask participants to write down as many reasons as they can why they **should** promote group enterprises.

Allow up to ten minutes for this, and elicit arguments such as the following:

- The poor are weak and have few resources but, if they pool their resources, they can achieve economies of scale.
- The poor lack access to resources such as finance. They can claim their rights better by working together.
- Women are usually the poorest people in poor communities and they are also the most effective group workers.
- If poor people set up individual businesses, they too will exploit their fellows and may become rich only at their expense.
- Even if individual businesses tend to be more successful and to grow faster, they exaggerate inequities in society. We should promote equitable distribution through group enterprises.
- Poor communities often have strong traditions of community action. These can be used as a basis of new community business enterprise.
- The rich have traditionally exploited the poor, partly by dividing them against one-another. If poor people come together they can empower themselves to achieve social, political and economic goals.

7. Ask participants to describe group enterprises which they know have succeeded. This can be from their own experience or one they have heard about. Are there any common features from which we can learn?

Summarise participants' observations on the board. Some of them may be restatements of the lessons from the Basket-makers Society case study. Points should include:

- People should do what they want to do; no form of enterprise should be forced on them.
- The members should have a shared common need.
- A group enterprise has to be viable and well-managed like any other form of business.
- Group enterprises with one quite simple function, such as milk collection, or fertiliser distribution, or crop marketing, or savings mobilisation, are more likely to succeed than complex businesses.
- Group enterprises must be allowed to fail, like any others.

8. Stress in conclusion that there are no rules as to when group enterprises are and are not appropriate. People must be free to make their own decisions and the role of advisers should be to show people the options that are available and to facilitate their doing what they want to do.

Advisory staff should **not** promote group enterprises because they believe that they are the only 'correct' form of business or because they are more convenient for the organisation to assist.