



international labour office geneva

## TRAINER'S MANUAL

# A WORKERS' CO-OPERATIVE: FORMATION AND MANAGEMENT

material for training of co-operative advisers



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# MATCOM

material and techniques for cooperative management training

The MATCOM Project was launched in 1978 by the International Labour Office, with the financial support of Sweden. Since 1984, MATCOM is financed by Denmark, Finland and Norway.

In collaboration with cooperative organisations and training institutes in all regions of the world, MATCOM designs and produces material for the training of managers of cooperatives and assists in the preparation of adapted versions for use in various countries. MATCOM also provides support for improving the methodology of cooperative training and for the training of trainers.

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Preface

The ILO-MATCOM Project has produced a total of fourteen training packages designed to assist the people responsible for planning or conducting training courses for advisers and managers of agricultural co-operatives in developing countries.

In addition, MATCOM has now designed two packages to help in the training of advisers to people considering establishing workers' co-operatives:

A WORKERS' CO-OPERATIVE: THE DECISION TO START

and

A WORKERS' CO-OPERATIVE: FORMATION AND MANAGEMENT

Workers' co-operatives are usually concerned with manufacturing rather than farming. The important distinction here, however, is not between agricultural and non-agricultural co-operatives but between service and workers' co-operatives.

Service co-operatives exist to provide marketing, supply, equipment hire, credit and other such services to their members, generally independent farmers. (MATCOM's training packages for agricultural co-operatives are actually designed for this type of service co-operative.) Obviously, independent craftsmen, such as carpenters or tailors, can also form service co-operatives.

Workers' co-operatives, on the other hand, are set up to provide jobs to members, not services. Members of a service co-operative own the co-operative and buy from or sell to it; members of a workers' co-operative own it and also work for it.

The term "workers' co-operative" has been chosen because it is probably the most widely used term to describe this kind of organisation. Other terms in common use include industrial co-operative, producers' co-operative and workshop co-operative. The terminology is not important; the critical determinant is not the particular activity undertaken but the fact that members of service co-operatives retain their own independent economic activities, while members of a workers' co-operative are actually employed by it.

Many countries have long experience with agricultural service co-operatives. The function of the MATCOM training packages for their managers is often to introduce more effective management techniques to organisations whose basic principles, problems and activities are already well understood. Workers' co-operatives, on the other hand, are less common; they have a greater need for more fundamental training. It is hoped that these new complementary MATCOM training packages will help to satisfy this.

THE TRAINING PROGRAMME1. Target Group

This training programme is designed to help in the training of advisers to workers' co-operatives.

With minor adjustments, the programme can also be used for managers and potential managers of workers' co-operatives.

- In field tests of this material it was found very useful to include both advisers and managers of existing co-operatives among the participants, since each could learn from the other.

However, it is important to be clear as to the different roles of advisers and managers. As is evident in the material, one of the most important conditions for success is that the members of a workers' co-operative make their own decisions and manage their own enterprise. An external adviser may find it easier to make decisions for them, confident in his own expertise, but if he does, it will almost inevitably result in failure. What he must do is help and guide the members to make their own decisions.

2. Aim

The aim of this training programme is to enable advisers to workers' co-operatives to help their members establish and manage them more effectively, and to train the members to undertake these activities on their own. (If the advisers are likely to be concerned with groups which have not yet started a co-operative, they should first go through the introductory MATCOM programme "A Workers' Co-operative: The Decision to Start".)

3. Objectives

The training course described in this manual is made up of thirteen sessions (see page XI). Briefly summarised, their objectives are to enable participants -

- to identify the typical features of a workers' co-operative, and the most common reasons for failure;
- to identify and play an appropriate role as outside advisers in the initial stages of a workers' co-operative;

- to advise and obtain from prospective workers' co-operatives a simple but comprehensive plan of action which will enable the co-operative to finance and start operations effectively;
- to advise and assist members of a workers' co-operative to market and sell their products;
- to assist and advise members of existing or prospective workers' co-operatives to select and acquire appropriate premises, equipment and material;
- to advise and assist members of workers' co-operatives to assess their capacity, set optimum prices and choose the best work for their societies;
- to advise and assist members of workers' co-operatives to manage their finances effectively;
- to assist members of workers' co-operatives to identify appropriate sources of finance;
- to prepare and make effective use of statements of the financial condition and operations of workers' co-operatives;
- to make members of workers' co-operatives aware of the need to set up appropriate and effective procedures for making decisions;
- to assess the condition of moribund workers' co-operatives, to identify reasons for failure and to recommend and advise on appropriate remedies when possible;
- to advise and assist members of workers' co-operatives to plan and budget for the future;
- to identify specific tasks which they will commit themselves to undertake on their return home, and which will apply what they have learned on the course.

#### 4. Timing, Structure and Use of the Material

The following material is provided for each session:

- a session guide for the trainer (yellow pages), giving the objective of the session, an estimate of the time needed and a comprehensive "plan" for the session, including instructions on how to conduct the session;

- handouts (white pages) of all case studies, role play briefs, etc., to be reproduced for distribution to the participants.

The programme can be conducted in something between 25 and 35 hours of classroom time, depending on the level of participants and the pace at which the material is used.

Note: The course described in this manual can conveniently be linked to the introductory course "A Workers' Co-operative: The Decision to Start", and run as one course. In that case, Session 13 "Action Commitment" should be omitted from the first part, and Session 1 "Introduction" of this second part should also be omitted.

If this second part is run on its own, the instructor may wish to use parts of Sessions 1, 2 and 3 of the first part to supplement Session 1 here.

Some trainers may prefer to use groups of sessions, individual sessions or parts of sessions, and they should certainly feel free to do this. Components from this programme can be integrated with other material, and trainers should in general feel free to make whatever use they care to of the ideas which are contained in this material. Every trainer should aim to make the material his or her own; parts of it will undoubtedly need substantial modification to conform to local conditions, and trainers may have more appropriate examples and case studies which they should substitute for those which are given in the material whenever possible. MATCOM manuals are deliberately produced in loose leaf form; trainers should write on them, amend and improve on them continually.

## 5. Training Approach

This MATCOM programme is based on the assumption that training is expensive and that money for training is scarce. Training is an investment; unless the benefits resulting from participants' improved performance exceed the cost of conducting the course, the money should have been used in some other way.

After the training programme, the participants must be able to show concrete results. In order to help them do this, the course makes little use of theory; it is highly participative and the day-to-

day problems which advisers and members of a workers' co-operative have to face have been put over in the form of case studies and exercises which they actually have to solve. Participants, working in groups and on their own, will learn from each other and from the trainer, whose role is mainly that of a facilitator, how to perform their jobs more effectively.

Every participant, even those without experience of advising or working in a workers' co-operative, has insights and experience to contribute; the material is designed to help you, the trainer, draw out or "elicit" these insights, and if every participant goes away sharing the accumulated expertise which each has brought to the programme, a great deal will have been achieved without any contribution in terms of knowledge either from the material or from the trainer.

The final session on "Action Commitment" is designed to help participants cross the "bridge" between the classroom and their jobs. The sessions should have been as close to reality as possible, and this final session should help them, assisted by the trainer and by one another, to develop a specific programme of action which they will commit themselves to completing on their return home.

#### 6. Preparing the Training Material

This course is based on a number of exercises dealing with the formation and management of one specific hypothetical society - a carpenters' co-operative.

Woodworking has been chosen as the activity for our hypothetical society, because there are carpenters everywhere and there have been many woodworking co-operatives. If there is another activity which is more familiar to participants, or is far more likely to be taken by co-operatives which they must advise, the material should be re-written accordingly.

Women's co-operatives are increasingly common, and often successful. If participants are likely to work with such groups the whole case study should be re-written.

If possible, participants should visit a carpentry workshop, or a business of whatever type is chosen for the case-study, in order to have some idea of the process that is involved.

Co-operative by-laws and other regulations differ to a great extent from one country to another; the instructor must obtain copies of relevant documents and ensure that participants are fully familiar with what is involved.

Handouts constitute an important part of the training material used in the programme. They can be reproduced from the original handouts supplied in this ringbinder, after the necessary adaptation has been made. Reproduction may be done using whatever method is available: stencil, offset printing, photocopy, or other.

The only item of training equipment which is absolutely essential is the chalkboard.

Some suggestions for visual aids are given in the session guides. If flipcharts or overhead projectors are available, you should prepare these aids in advance. If they are not available you can still use the chalkboard.

## 7. Preparing Special Sessions and Study Visits

If possible, invite somebody with detailed knowledge of the regulations for workers' co-operatives to take a session in the course, preferably towards the end when participants will have generated questions. The session with such an expert should mainly be devoted to questions, if necessary prepared in advance, rather than to a lecture.

There are large numbers of assistance programmes for workers' and other co-operatives in most countries, and it is obviously vital that advisers should be fully familiar with them.

Invite representatives of agencies providing such assistance to the course at appropriate occasions to answer questions about how the carpenters' co-operative might have been eligible for whatever assistance programmes they offer.

If possible, organise a "panel" of assistance agencies, in order to give participants some idea of the wide range of assistance that is available. If there appears to be overlap or duplication, as may be the case, stress that workers' co-operatives can only benefit from competition between agencies trying to help them.

At some point in the course, try to organise a field visit to an actual operating workers' co-operative. Participants should be briefed beforehand to observe in particular:

- Do the worker members who are carrying out the actual production tasks appear to feel that they ultimately own and control the business, or do they act like ordinary employees? (This can be investigated through tactful questions and by careful observation of worker members' attitudes.)
- Do the management behave as leaders of a team or as autocratic directors? (Here again, participants should observe their dress, the furnishings of the offices, the way in which they address other staff and their willingness to undertake simple physical tasks themselves.)
- Does the enterprise appear in general to be well managed? (Observation of material storage, the placing of equipment and of work which is in progress, the appearance of files and desks, and the general atmosphere of the business as a whole are the best indicators.)

After such a visit, participants should be asked to give their opinions and to discuss how workers' co-operatives can avoid mistakes and emulate any good examples, which they have seen.

## 8. Preparing Yourself

Some trainers may feel that material of this sort means that they need only spend a few minutes preparing for each session. This is not the case.

You should go through the following steps before conducting any course based wholly or in part on this material:

- a. Read it carefully; be sure you understand the content and that you can envisage what is intended to happen in the classroom.

- b. Work through all the calculations; be sure that you understand them completely. Try to predict the errors that trainees are likely to make, and the different answers which may not be wrong, but which will be worth following up.
- c. Work through the case-studies yourself. Try to predict all possible analyses and answers which trainees may come up with.
- d. Look up and write down on the material itself, as many local examples as you can to illustrate the points that are raised.
- e. Plan the whole session very carefully; try to predict approximately how many minutes each section of the session is likely to take, and make the appropriate modifications to fit into the time you have available. Do not take the suggested time at the beginning of the session too seriously.

#### 9. Conducting the Programme

While using the material, you should try to observe the following guidelines:

- a. Arrange the seating so that every trainee can see the faces of as many as possible of the others; do not put them in rows so that the only face they can see is your own.
- b. Be sure that the session is clearly structured in the trainees' minds. Outline the structure at the beginning, follow it or say that you are diverging from it, and summarise what has happened at the end.
- c. Bear all the learning points in mind, and do not forget the job-oriented objectives of the session.
- d. Be flexible; do not follow the material slavishly and be prepared to change the approach, depending on what trainees themselves suggest.
- e. Avoid, whenever possible, telling the trainees anything; try to elicit important points from them by skilful questioning.
- f. If you fail to draw a particular answer from the trainees, it is your fault, not theirs. Persist, asking the same question in different ways, hinting at the response you want. Only make the point yourself as a last resort.

- g. Use silence as a weapon; if nobody answers a question, be prepared to wait for 20 or 30 seconds in order to embarrass somebody into making an attempt.
- h. Avoid talking yourself. Trainees' discussion and suggestions should occupy around three-quarters of the total time. Ask, listen and guide rather than talk. (The more you yourself talk, the more you are revealing your own insecurity or ignorance of the subject, in that you are not willing to risk questions or comments with which you cannot deal.)
- i. Never ridicule a trainee's answer or suggestion; it may have some merit and the attempt itself is commendable.
- j. If you cannot answer a trainee's question (perhaps even if you can) ask another trainee to respond. You are the facilitator, not the source of knowledge.
- k. Write trainees' own words on the chalkboard whenever possible; do not follow the words in the material, even if they are more precise.
- l. Be prepared to act as "Devil's Advocate", there are usually no right or wrong answers to management questions, and trainees must see and understand both sides of an issue.
- m. If trainees appear to be following a quite different track from that suggested in the material, do not dismiss this out of hand; it may be as useful or more so.
- n. Call on the silent and, if necessary, silence those who talk too much.
- o. Be sure that everybody understands what is going on; do not allow discussion to be taken over by a few who understand.

#### 10. After the Course

Be sure to contact all participants, in person or at least by letter about six months after the end of the course to find out how they have managed to apply what they have learned and how well they are implementing their action commitments. If they have failed, it is not they who were at fault, but the course. Either the training was ineffective, the participants were poorly selected or you failed to recognise problems which might prevent them from applying what they learned.

THE COURSE PROGRAMME

Session 1	Introduction
Session 2	The Initiative
Session 3	The Plan
Session 4	The Market and Marketing
Session 5	Premises, Equipment and Raw Materials
Session 6	Pricing and Product Selection
Session 7	Financial Management
Session 8	Sources of Finance
Session 9	The Management of Money
Session 10	Organisation and Decisions
Session 11	Diagnosis and Remedies
Session 12	Planning for Expansion
Session 13	Action Commitment

Session

**1**

# Introduction

SESSION 1INTRODUCTION

Objective: To ensure that all participants are clear as to what a workers' co-operative is and what are the most common reasons for failure.

Time: 2 - 2 1/2 hours.

Material: Microcases "Different types of Co-operatives" and "Why did they fail?"

Session Guide:

- 1) After a brief introduction, remind participants that there is a great deal of confusion over what a workers' co-operative actually is. The best way to be sure is not to discuss technical definitions but to quote a number of examples, and to decide if they are or are not workers' co-operatives.

Distribute the microcase study "Different types of co-operatives" and allow participants up to 15 minutes to complete the exercise. Ensure that they work on their own and do not discuss their conclusions with their neighbours since it is vital that every individual participant clearly understands what a workers' co-operative is from the beginning of this programme.

- 2) Ask each participant, in turn, to say what kind of enterprise each case is. Do not at this stage give any indication as to which answers are right or wrong. List responses on the chalkboard/ohp\*, possibly using a table in the following form:

<u>Case</u>	<u>Workers'</u> <u>Co-operative</u>	<u>Service</u> <u>Co-operative</u>
A		X
B		X
C	X	
D		X
E		X

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\* = overhead projector

to summarise, very briefly, the reasons for failure of each of the eleven workers' co-operatives.

There are no right or wrong answers to this exercise; the groups may, however, agree on the following reasons:

Co-operative A - The Alpha Authors:

- The members had no real common need to motivate their commitment.

Co-operative B - The Beta Quarry:

- There was no market for the products of the co-operative.

Co-operative C - The Cheerful Brewers:

- The co-operative had no leader.

Co-operative D - The Delta Builders:

- The co-operative was misused for political reasons.

Co-operative E - The Epsilon Handicraft Co-operative:

- The co-operative was "smothered" with too much help.

Co-operative F - The Friendly Secretaries:

- The members were not homogeneous in terms of their needs and status.

Co-operative G - The Gamma Steel Rolling Mill:

- The co-operative lacked effective management.

Co-operative H - The Hopeful Vehicle Repairers:

- Members did not have the necessary skills.

Co-operative I - The Iota Garment Society:

- The workers' co-operative lacked adequate working capital.

Co-operative J - The Jolly Weavers:

- The members did not respond to change.

Co-operative K - The Krafty Fibre Spinners:

- The members' motive was to obtain subsidies and not to provide employment for themselves.

- 5) Ask participants to combine the reasons for failure of each of the eleven workers' co-operatives into a checklist of questions which they and others can use when considering proposals.

Elicit suggestions and write up a list such as the following:

- Have the members a common and serious need which the co-operative will satisfy?
- Is there a market for their products?
- Do they have a good leader?
- Are the members aware of the dangers of being "used" by political or other special interests?
- Is the co-operative the members' own idea, and are they independent and autonomous?
- Are the members reasonably homogeneous?
- Will the members be able to manage the co-operative effectively?
- Have the members the necessary technical skills?
- Will the co-operative be able to acquire adequate finance?
- Are the members likely to be able to respond flexibly to changes in technology and the market?
- Are the members genuinely motivated by their need for employment?

- 6) Ask participants who have advised new workers' co-operatives to relate this checklist to their experiences:

- Would it have been possible to answer "yes" to all or most of the above questions, if they had been asked at an early stage about the co-operatives which have turned out to be successful?
- Would negative answers to any of these questions have been useful warnings of the possibility of failure?
- Would the checklist have helped the adviser to recommend appropriate assistance at an earlier stage?

Stress that negative answers need not necessarily suggest inevitable failure:

- In some cases, the adviser may be able to remedy the weakness by suggesting suitable training or other interventions.
- In some cases, negative answers can be used as warnings, to prepare members for possible future problems.

Remind participants that most worker co-operatives, like most business of any kind, fail. Their task is to minimise the risk of failure by:

- recognising situations where there appears to be little hope of success, and thus avoiding misguided encouragement and assistance;
- recognising potential weaknesses as early as possible in order to suggest appropriate remedies.

Different Types of Co-operatives

Read the following brief descriptions of enterprises all of which are co-operatives. Write down at the end of each in the space provided whether it is a workers' co-operative, and, if not, what type of co-operative it is.

- A. A number of independent weavers realised that on their own they could not produce sufficient cloth to interest the large buyers who paid the best prices. They contributed and borrowed funds, bought storage premises and appointed staff to collect and sell their cloth for them.

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- B. The small-scale shopkeepers in a certain area found it hard to compete with the large supermarkets which could buy in far greater volume. They decided to combine their orders to be able to obtain the best prices and deliveries from suppliers, and they formed an organisation to negotiate, store and deliver the goods to their individual shops.

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- C. A number of shoemakers found it very difficult to work individually. They decided to come together and work as a group in the same workshop. They bought their materials and tools and sold the finished shoes as one, and paid themselves wages out of the earnings of the organisation.

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- D. A group of factory workers in a certain town were discontented with the high prices and low quality offered by local provision shops. They raised some funds, rented premises and bought stocks,

and started a shop to satisfy their needs better. They distributed profits on the basis of the purchases they had made.

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- E. A group of farmers decided to get together to start a slaughter house. They invested and borrowed money and employed a manager and workers. The business bought cattle from the farmers. When it made profits, these were shared in proportion to the number of cattle each farmer had delivered.

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Why Did They Fail?

Read the following short stories and identify the main reason for failure in each case. Write it down in the space provided below each case.

A. The Alpha Authors

A number of reasonably successful women authors of books, articles and short stories felt that they should come together in order to express their common feelings and group solidarity. They formed a workers' publishing co-operative and entrusted their works to this new organisation rather than to the existing publishers they had used before. The new co-operative was hailed with some enthusiasm in the press, but the writers' main interest was in their writing and they took little interest in the society. Although they had one of the writers as the manager, she was more interested in writing more short stories than in managing the publishing firm, and found little enthusiasm among her colleagues.

After several months, some of the members started negotiating once again with their original publishers and entrusted their work to them once more, because these were better organised and required no management effort from the authors. After a year or so the co-operative failed altogether.

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B. The Beta Quarry

In a remote and very rural area there were few natural resources. A geologist found that there was high quality building stone available on one mountainside, near the only road that ran through the area. A group of unemployed men started a workers' co-operative to operate the quarry. They obtained training in blasting and stone cutting and soon produced large numbers of stone blocks, which lay in neat piles at the edge of the quarry. Unfortunately, however, there were other quarries nearer to the main centres of economic activity, and because of the poverty of the surrounding area, the few buildings that were constructed were made with corrugated iron or mud. One or two sales were made for the construction of govern-

ment buildings, but eventually the society ran out of money and stopped operations because there were so many unsold blocks waiting in the quarry.

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C. The Cheerful Brewers

The women brewers in a certain squatter settlement were well known for the quality of their beer and their fierce independence. They found it difficult to work because of continuous harassment by the city authorities, who attempted to impose irrelevant standards and taxes on their very small-scale operations.

They decided to come together in order to mobilise some political influence and protect their livelihood. After one or two meetings they formed a workers' co-operative and at first were received with some respect by the authorities, so that the police were told to desist from harassing them. The members found it very hard to agree, however, on any common policy, and they had lengthy meetings, discussions and arguments without ever reaching conclusions. One member would visit one politician, another would say something different to the police, and several different members were trying to sell the total production of the joint brewery to different customers for different prices.

After some months of this, the women gradually lost interest and reverted to their traditional method of working; the brewers' co-operative ceased operation.

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D. The Delta Builders Society

A number of unemployed masons and joiners were encouraged by a local politician to form the Delta Builders Society. They were offered contracts to construct government buildings and for large land clearing projects. They recruited several hundred of the unemployed people who normally stood around in the city and often formed the core of political unrest.

The politician who had initiated the society realised that they depended entirely on him. He implied to the leaders that unless they would mobilise the workforce to intimidate his opposition on election day, they would not receive contracts in future. Some members agreed, others did not, and the society broke up and collapsed as a result of political arguments.

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E. The Epsilon Handicraft Co-operative

Government and foreign aid donors were anxious to preserve the traditional craft weaving of a certain rural area. The few women who still carried on this craft were encouraged and assisted to form a workers' co-operative. Raw material was obtained for them from abroad and the goods were sold to visiting expatriates and foreign alternative marketing organisations.

The women were mainly illiterate and a volunteer from abroad carried out most of the management. The society was housed in an attractive building at the government's expense and visiting delegations were frequently brought to see them. Whenever any problems arose, there always seemed to be some help at hand. If money ran out, one or other agency would lend them money. Raw materials could also be provided and were not always charged to the society. Finished goods, of whatever quality, could always be sold to some well-wisher.

After some time, however, foreign assistance was withdrawn and the government seemed to lose interest. The members had no idea of how to run the society themselves and it soon collapsed.

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F. The Friendly Secretaries

When a large company closed down in a certain city, two or three of the senior secretaries were declared redundant. They decided that they would like to run their own business rather than be secretaries to other managers. They encouraged a number of recent

graduates of the local secretarial college to join them and form a secretarial workers' co-operative.

They were able to obtain work from the local university, government and private firms, but after some months the less experienced members complained that they were not being sufficiently well paid. The initiators of the society said it was only reasonable that the senior members should receive more money, since they worked far faster, they had far more experience and had set the whole thing up in the first place. Eventually the society broke down in disagreement and the members went off to get jobs on their own.

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G. The Gamma Steel Rolling Mill

A small steel rolling mill was about to be closed down because the family which owned and managed it lost interest. The workers decided to try and take it over by forming a workers' co-operative. They were advised and encouraged by the co-operative department, and since the owners had merely sat in the office and collected the profits they were confident that they could do a good job.

The customers agreed to continue to buy from the mill under its new ownership, and there were no technical problems. After some time, however, in spite of arrangements having been made with the bank, money seemed to run out. Nobody was clear who owed money to whom, spare parts and raw material had not been paid for and new supplies were therefore not delivered. One or two customers denied that they had received deliveries; there were no documents to prove that they had.

Because of these problems the mill soon closed down and the co-operative was dissolved. The actual mill was repurchased by relatives of the original owners for a very low price.

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#### H. The Hopeful Vehicle Repairers

A group of young men who had been trained in vehicle repair in a six months vocational training course failed to find employment with any garages. They decided to form their own business and were encouraged to start a workers' co-operative.

A number of individuals and organisations sent their vehicles for service, because they recognised the courage of the young men and the quality of vehicle repair in the town was in any case low.

The members found that they could carry out simple repairs on the petrol engine vehicles without difficulty. Their course, however, had not been long enough for them to carry out complex repairs and none of them knew anything about diesels at all. Well over half the vehicles brought in had diesel engines, because diesel fuel was less expensive, and one or two attempted repairs caused severe damage to expensive engines.

As a result of this, their customers soon went back to their original vehicle maintenance suppliers and the co-operative failed because of lack of demand.

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#### I. The Iota Garment Society

Some tailors who managed to earn a bare living making clothes for people who supplied cloth realised that there was far more potential in making ready-made clothing for sale through shops. They all owned their own sewing machines and they obtained a generous grant from a voluntary organisation to build a new workshop.

They started operations with a small supply of cloth that they had been able to buy because they had not spent all the grant on the building. They sold their first consignment of clothing after two weeks but the customer did not pay for another six weeks and during that period it proved impossible to pay the members or to buy any more cloth. As a result, a number of them went back to their old work and although the cash was eventually received the same problem repeated itself and the society eventually collapsed.

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J. The Jolly Weavers

A group of weavers who used traditional hand looms decided to work together in a common workshop, buying raw materials, weaving the cloth and selling it as a workers' co-operative. They produced traditional designs, woven in the traditional way, which had always been used in that country.

After some years, new designs became more fashionable. The weavers felt that they had no right to alter their traditional methods and designs, but sales gradually declined and eventually the co-operative failed because of shortage of demand.

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K. The Krafty Coconut Fibre Spinners

A group of people in an area where coconut fibre was allowed to go to waste were encouraged by the availability of subsidies and low interest loans to form a coir fibre co-operative. They received a grant to acquire a building, which actually belonged to one of the members already, and they took an interest-free loan to purchase the coconut husks from the palm tree growers, who were in fact themselves.

They spun a certain amount of coir and most of them merely took the money and spent it on television sets, motorcycles and other personal luxuries. When the State Development Bank tried to collect the first instalment of the loan, they found that the members had disappeared and it was impossible to find the office holders or any records of what had actually happened to the money.



# The Initiative

SESSION 2THE INITIATIVE

Objective: To enable participants to identify and play an appropriate role as outside advisers in the initial stages of a workers' co-operative.

Time: 2 - 2 1/2 hours.

Material: Case study "The Alpha Woodworkers".

Session Guide:

- 1) If necessary, remind participants of the basic guidelines for workers' co-operative success which were listed in the preceding session. Ensure that all participants are familiar with them, and stress that in the following sessions they will have an opportunity to apply these guidelines to a hypothetical group who are evolving their own workers' co-operative.
- 2) Explain to participants that the course which they are now following is rather different to other courses they have taken. They will go through the various stages of initiation, establishment and on-going management of a workers' co-operative, through a variety of case studies, role plays and other simulations. During the process, they will be faced with a number of decisions which they, as external advisers, have to make. During the course, they will have to decide what to do, what to recommend, how to recommend it, and when to do nothing. Although this will all be in the context of one hypothetical society, they will be better prepared to face the similar situations which occur in real life.
- 3) Divide participants into groups of not more than 5 members each. Distribute the case study, and allow them up to 30 minutes to discuss it and to come up with specific plans as to what they, as advisers, should do. If time is short, this may be done individually, rather than in groups.

In this and all subsequent case studies, ensure that participants go beyond discussion and analysis of possibilities to the stage of specific recommendation and action.

It is easy to discuss various possibilities in a general way. It is more difficult, but vitally necessary, for an adviser to decide what to do. Doing nothing might be the right decision; what is important, is to decide to do nothing rather than doing nothing because you failed to decide anything.

- 4) Reconvene the groups. Ask a representative of each first of all to give a specific answer to Part 1 of the assignment. Elicit and summarise their replies, insisting that they be specific. They should in particular decide:

- Will they use the social worker as a go-between?
- Will they ask him to take the adviser to the group?
- Will they ask him to tell the group to come altogether to see the adviser?
- Will they ask him to ask the group to send one representative or a small delegation to the adviser?

Discuss the various alternatives. Make it clear that these apparently detailed points are important. The response will depend on circumstances, but unless there are very strong reasons otherwise advisers should not be encouraged to seek out the prospective members. They should -

- ask the social worker to ask either the whole group, or one or more representatives, to come to see the adviser, preferably after making an appointment.

Ask participants why this is the best approach.

- It will ensure that the group themselves take the initiative; they must demonstrate their serious interest by doing something.
- It will ensure that the group demonstrates its ability to act together, and will provide an opportunity during the meeting

for the adviser to judge the development of some leadership structure.

- It will avoid the group becoming reliant on the social worker.
- It will introduce them to the reality of business; appointments must be made and kept.

Some participants may work in remote areas, with poor transport facilities or in places where there is a serious lack of interest in new business ventures, so that they must promote rather than respond. In such circumstances they may have to go out to meet this group. Stress that they should still demand the beginning of business-like behaviour by setting a firm place and time for a meeting, for instance.

- 5) Ask participants to assume that they asked the social worker to convey the message to the group; the social worker confirmed that he passed the message on and then - nothing happens. Ask what they, as advisers, would do in this situation.

Some may suggest recontacting the group, or making an effort to contact the individual carpenters directly.

Stress that the first and most necessary condition for success of any enterprise is enthusiasm and commitment of its initiators. This applies to workers' co-operatives even more than to most types of enterprise.

Co-operative advisers are often under pressure to develop as many co-operatives as possible. They should remember that this means successful and viable co-operatives. If they attempt to "push" a group with little commitment into co-operating, they will inevitably fail.

The adviser should ensure that the group really did get the message from the social worker, and that there were no genuine reasons why they failed to follow it up. If there were no such reasons, he should forget the whole matter.

Participants should not get the impression that they should always wait in their offices rather than going out. They should go out for much of the time, to:

- introduce the idea of business at meetings and other gatherings;
- maintain contact with on-going enterprises;
- visit businesses when it is necessary to appraise their activities in detail.

- 6) Ask group representatives for their answers to question 2a. What information will they request from the carpenters?

Write the groups' suggestions on the chalkboard/OHP.

When they have all been written down, eliminating duplications, ask participants to "test" each question by asking:

- is it necessary, at this stage, for the carpenters to have this information;
- can the carpenters be expected to be able to obtain this information at this stage?

Many of the questions will "fail" these tests. Stress that an adviser:

- must not do the prospective co-operators' work for them;
- must guide them gradually through the process, so that they learn by building one task upon another.

- 7) The specific information to be requested will vary, but one reasonable list of questions might be as follows.

- Why (if they do) do they believe that their venture would best be put forward as a workers' co-operative?
- What are their specific objectives in proposing to start a workers' co-operative?
- Who are the prospective members, what training and experience have they?

- Who is the leader, and how do they make decisions?
- What money, or other financial resources, do the members have to contribute to the business?
- What ideas do they have for getting money from elsewhere (family, friends, etc.)?
- What products do they think they will make?
- Who do they think will buy what they propose to make, and why?
- What raw materials will they need, and where will they get them?

Ensure that participants do not make the mistake of asking leading questions such as:

- "Are you willing to work together as co-operators?"

Clearly the obvious answer to such a question is "Yes", and it indicates nothing.

- 8) Ask participants how they want the carpenters to respond to their requests for information:

- Will they attempt to elicit answers from the carpenters there and then?
- Will they ask the carpenters to submit a list of answers at a later date?
- Will they ask the carpenters to come back with the answers and present them personally?

It is important to accustom the carpenters to the idea of "selling" the proposal and, eventually, their products.

The adviser should ask them to make an appointment to return and make a preliminary presentation, supported by written notes if this is possible.

- 9) Ask a representative of each group to list their answer to question 2b of the assignment.

List their responses on the chalkboard/ohp. Do not include duplicate answers and when all suggestions have been listed, ask the following questions.

- Are the potential co-operators likely to be able to understand, and remember all the items listed?
- Are all the items necessary at this early stage of the potential co-operative?
- Do they, as co-operative advisers, have all the information necessary to give to prospective co-operators?

Participants' suggestions are likely to include descriptions of assistance programmes and possibly be too encouraging. Remind them that excessively encouraging promotion leads to unsuccessful co-operatives. How can they describe the ways government and other organisations assist co-operatives, and at the same time ensure that the group is realistic and appreciates the difficulties ahead?

- The adviser should stress that many new businesses fail, and that workers' co-operatives are no more likely to succeed than any other business.
- The adviser should ensure that the carpenters understand that they will have to do all the work, and that success will depend on them. Governments can only respond to their requests for guidance, and provide a framework within which they can operate.

Information given to the group at this stage, should be as simple and brief as possible, it might be confined to the following:

- A warning of the risks of failure.
- A brief summary of ways in which they can be assisted at this stage.
- A reminder that "it's up to them".
- Some guidance as to sources of the information that you will require from them.

- A brief explanation of the various forms of business, including non-co-operative approaches, with their advantages and disadvantages.

Participants may feel that their task is to promote co-operatives. Why should they describe other forms of organisation?

Stress that their task is to help the carpenters decide what is best for themselves. What other possibilities are there, apart from a workers' co-operative?

- Set up a service co-operative to buy raw materials, own and operate machinery, and obtain orders for them as individual carpentry businesses.
- They might remain as an informal group, at least initially, to avoid the delays and expense of registration.
- One or more, with more money and ability, might form a sole proprietorship, a partnership or a company and employ the others.

No one approach is necessarily the best; the choice should not be an ideological one, but must be made by the prospective members, based on knowledge of the alternatives which they can gain most effectively from an adviser.

The Alpha Woodworkers

At the time of independence, one of Ruralia's most serious problems was the lack of skilled artisans. The Ruralian Vocational Institute was established in 1965 to provide 12-month practical training courses in vehicle maintenance, building and carpentry.

About 50 people were trained in each of the 3 sections each year. In the early years of the Institute, they all found jobs without any difficulty.

By the early 1980's, however, the Government had stopped employing because of an austerity programme, and the few large businesses in the country were also struggling even to retain their present staff.

In spite of the difficulty of obtaining jobs, people still wanted to attend the Institute; even an unemployable skill, they reasoned, was better than no skill at all. By 1986, however, the situation had become even more serious. Of the 50 carpenters who left the Institute in July, only around 10 had found jobs by the end of the year.

Some of the remaining 40 returned to their villages because they could no longer live with their relations in the city, and some emigrated to find work overseas. A few tried to start their own businesses, but although the economy was picking up a little, and small contractors were gaining an increasing share of the market because of their lower costs and faster work, they found it very difficult to get any orders. Even if a customer did ask them to make some furniture, do some repairs or help with joinery, they had no money to buy materials. Few people were willing to pay an untried supplier in advance.

Now, three of the trainees who had tried to start on their own, without success, together with seven others who have been searching in vain for jobs have decided that they might try to do something together. Although they have had no commercial training, they know that most larger companies are owned by a number of stockholders who will provide the money. They also know that many of their relatives belong to some kind of agricultural society which markets their crops.

Not all of these joint efforts are successful, as they know, but the ten trained carpenters think that they might at least try.

A local social worker, who is acquainted with some of the carpenters, knows that you are an adviser in the Co-operative Department. He approaches you and asks you to help the carpenters.

Assignment:

1. How exactly will you make contact with the carpenters? Will you go to see them or ask them to see you, and how will you do this?
2. Once you have made contact with them, in whatever way you have chosen,
  - a) what information will you ask from them;
  - b) what information will you give them?

SESSION 3

THE PLAN

Objective: To enable participants to advise and obtain from prospective workers' co-operatives a simple but comprehensive plan of action which will enable the co-operative to finance and start operations effectively.

Time: 2 - 2 1/2 hours.

Material: Adviser's role play brief.  
Carpenters' initial information sheet.  
Carpenters' role play briefs.

Session Guide:

- 1) Before the session, select three participants to play the roles of three representatives of the carpenters, namely Bhatt, Eli and John.

Give them their respective role briefs, together with a copy of the carpenters' initial information sheet, in sufficient time to allow them to consider their roles and the information individually.

The three should not be included in the first stages of this session, but should be asked to meet in another room, in order to plan their approach to the co-operative adviser at the forthcoming meeting. They should not share their individual role briefs with one another.

While the other participants are studying the initial information sheet, the instructor should spend some time with the three "carpenters" to ensure that they understand their roles and that they are putting together a consistent and realistic approach.

- 2) Remind participants of the previous session and of the adviser's requests to the carpenters for certain information.

Distribute copies of the carpenters' initial information sheet and of the adviser's role play brief to all participants, apart from the three "carpenters" who have now left the room. Explain that the initial information sheet was delivered to the co-operative adviser, in advance of the meeting between him and three of the carpenters which is about to take place.

Allow all participants up to 20 minutes to study the information individually and to come to their own conclusions regarding the points listed in the adviser's role brief.

- 3) Ask participants to suggest their answers to the questions on the adviser's role brief; summarise these on the chalkboard/ohp and warn participants that one of them, to be nominated at the end of this discussion, will be expected to play the role of the adviser in the subsequent meeting with the three carpenters' representatives.

Ensure that all take notes of the group's conclusions, since the summary on the chalkboard/ohp will be removed before the meeting takes place.

- 4) Ask participants to suggest their answers to the first question in the adviser's role brief, relating to the fundamental viability of the proposed workers' co-operative.

Elicit the response that there is nothing in the information to suggest that the proposed co-operative is fundamentally unviable. The carpenters should not be discouraged from continuing with the proposal.

- 5) Elicit possible problems and suggested remedies (question b) as follows:

Problem

The members appear to have very little experience of business.

Remedy

They should decide who is to manage the co-operative; he should take a short training course, read up on simple book-keeping and management techniques and/or receive individual counselling from the adviser.

There appears to be no obvious leader of the group.

The group should elect at least a chairman and secretary at this stage, and possibly a committee as well. Democracy is not inconsistent with enlightened leadership.

The carpenters have given no information about raw material supplies.

Members should obtain information about suppliers, their products, quality, prices and payment terms.

The notes on customers are based only on hearsay, and appear to an extent to imply that the members think they will get business just because they are a co-operative.

The members should undertake a study of the potential market, identifying individual customers and obtaining orders if possible.

There is a potential for conflict between some members' own business and the proposed co-operative.

Those members who have been in business for themselves should understand quite clearly that they will have to stop this activity if they are to be members of the proposed co-operative.

The members appear to know nothing about the formalities for registration.

The adviser should inform them and ensure that they carry out the necessary formalities; registration should not be premature and should not be done until it is necessary.

The members do not appear to have considered premises or equipment beyond their own tools.

Members should themselves decide what kind of equipment and premises they need and should obtain details and quotations from appropriate sources.

6) Elicit suggestions in response to question c) in the adviser's brief as follows:

- Which of the three representatives appears to act as a potential leader? This does not necessarily mean the most talkative.
- Do the three representatives appear to be in agreement with one another?
- Are their own ideas basically realistic? Do they need bringing down to earth, possibly by having rather taxing assignments which will test their commitment, or do they need more tactful encouragement, to develop their confidence?

7) Ensure that all participants have briefly noted a summary of the problems and remedies, as agreed in discussion. Rub out or remove

the summary from the chalkboard/ohp and nominate, or ask the group to nominate, one participant to act as the actual adviser. Ask him or her to arrange a table and chairs for the forthcoming meeting.

Invite the three "carpenters" to come in, and ask them and the adviser to role play the meeting for a maximum of 20 minutes. The remainder of the group should observe and be ready to comment on what happens.

8) After the end of the meeting, bring the participants together and ask the three "carpenters":

- Did they feel that the meeting was useful?
- Did they feel that the adviser had asked too much of them, or had belittled them by talking down to them and acting as though they could do nothing on their own?
- Did they feel that the adviser genuinely identified the weak points in their proposal and helped them to correct them?
- Which of the questions were unexpected, and did the adviser omit any questions which they had expected to be asked?

Ask the "adviser":

- Did he/she feel satisfied with the meeting; how could it be improved?

Ask the observers to comment in general on the adviser's conduct in the meeting:

- Did the adviser put the carpenters at their ease in such a way as to encourage them to discuss their difficulties and not to conceal anything?
- Did the adviser ask questions, make comments and request further information in such a way that the carpenters could understand, remember and would in fact do as he suggested?
- Did the adviser elicit the need for further information and other suggestions from the carpenters? Did the carpenters have the impression that the ideas were their own, or were they imposed from outside, and thus less likely to be followed?

- Did the adviser discourage the group from developing their own independence by offering to do too much for them, rather than suggesting that they did it for themselves?
  - Did the group appear too ambitious, and if so, did the adviser tactfully but clearly show them that they were?
  - Was it clear at the end of the meeting what the adviser would do, and what the members had to do for themselves?
- 9) Ask participants why a plan based on all this information is necessary; who will use it, and for what purpose?

Participants may suggest that the main purpose is for bankers or other sources of financial support to make their decision. Stress that these are indeed important, but the main users of the plan are the members, so that they can decide -

- whether the proposed co-operative is worth attempting;
- how to direct it in order to achieve its objectives.

Ask participants to suggest the basic headings under which a business plan should be presented; elicit as follows.

- An "executive summary", no more than one paragraph, including how much money is being sought from outside sources.
- The name of the proposer, address and other basic personal information.
- A list of the people who are involved, their qualifications and experience, and the office holders if appointed.
- A brief summary of the market, stating who are the customers, why they should be expected to buy from the proposed co-operative, and how the products will be sold to them.
- A brief summary of the products and how they will be made.
- A summary of raw materials, equipment and premises required, with prices, sources and payment terms.
- A forecast of cash flows, month by month for twelve months and half-yearly for at least a further year, including a statement of funds to be subscribed by members, based on information

about payment terms from suppliers and to customers, and leading to an estimate of the outside finance required.

Ask participants to suggest how long such a document might be for a group like the carpenters. Stress that each section should probably not occupy more than one page, and that the whole document should be simple, in note form and designed to be rapidly read and understood by members themselves, bankers and other sources of finance or assistance.

Adviser's Role Play Brief

The carpenters' group have submitted some initial information and you are shortly to meet with three of them in order to give them further advice.

Study the information they have given you and consider in particular the following points:

- a) Is there anything in the information which would suggest that the proposed carpenters' co-operative is basically unviable and that the carpenters should be discouraged from continuing with it?
- b) What possible problems or important gaps in the information are there, and how should these problems be solved and gaps filled?
- c) During the forthcoming meeting, what will you be looking out for, apart from concrete information, in terms of personal behaviour and attitude of the carpenters' representatives?

Carpenters' Initial Information Sheet

To: The Co-operative Officer.

From: The Alpha Carpenters' Society (proposed)

Subject: Our answers to your questions.

1) Why a co-operative?

We believe in working together, not in exploitation, and we want to show that Ruralians can co-operate for the good of the country.

Even if we wanted to start a normal private business, which we do not, we do not have the capital to do it.

We know that government, and we hope other public organisations, support co-operatives. They should help us to get contracts.

2) Prospective members

<u>Name</u>	<u>Age</u>	<u>Education</u>	<u>Experience</u>	<u>Possible Contributions</u>
Abdullah	21	7 years	none	Tools
Bhatt	20	9 years	none	Tools
Chuck	19	5 years	1 year apprentice	Tools + \$50
David	24	3 years	3 months own business	Tools + \$100
Eli	27	11 years	none	Tools
Fred	19	7 years	5 months own business	Tools + \$50
George	24	7 years	none	Tools + \$50
Hira	25	7 years	1 year's work with father	Tools + second-hand lathe
Ismael	23	8 years	none	Tools + \$100
John	20	2 years	6 months own business	Tools + \$150

All the above have completed the one year carpentry training course at the Ruralian Institute.

3) Who is in charge?

We are all equal, and propose to take decisions on a democratic basis and to ensure that nobody dominates the group.

4) Resources?

As listed in the schedule of members; all of us have the tools which we received on leaving the vocational institute, 5 of us have some cash totalling \$400 and one of us has an old but serviceable lathe given to him by his father.

5) Possible additional resources?

Family:

It is possible that one or two of us might be able to borrow a little money from our families, perhaps up to \$200 in total.

Others:

We understand that the government makes grants and loans to workers' co-operatives, and we hope that we can take advantage of this.

6) Products?

We have learnt to make chairs, tables and small furniture. We can also make simple builders' joinery, such as doors, windows and frames.

7) Customers?

Many of our friends and families have said they will buy furniture from us.

The government will buy school furniture from us as part of its support for workers' co-operatives.

Some of our friends who learnt building from the RVI have set up a building business. They need joinery from time to time, and said that they will consider buying it from us, particularly because the government is their main customer and since it prefers co-operatives, they believe it would prefer them to have a co-operative sub-contractor.

Carpenter's Role Play Brief - Bhatt

You are young, rather idealistic and highly committed to the idea of an egalitarian commercially motivated workers' co-operative. You are sure that true democracy, with all decisions being taken jointly, is the most equitable way of conducting affairs.

You believe that most private sector employers, suppliers and customers are dishonest, and you believe that the government's role is to protect people such as yourself from these exploiters.

You have joined the group of carpenters partly because you desperately needed employment, but also because you are a passionate believer in co-operation. Ultimately, you hope, you may enter politics and correct all the nation's problems through the spirit of co-operation. The other carpenters have asked you to join the group who have come to see the co-operative adviser because, you believe, they respect and trust you and your commitment to their shared ideals.

Carpenter's Role Play Brief - Eli

You are the oldest and best educated of the group of jobless carpenters, and the others listen to your opinions with some respect. You have spent the seven years since you left school at home, trying to continue your studies without success, doing a little work on the farm and living on your relatives.

You only took the carpentry course at the Institute in desperation, but you are attracted to the idea of a workers' co-operative because you think you will certainly be able to lead the group and become the manager with all the prestige, power and status that this will involve.

You have dreams of wealth and authority; you are not a very good carpenter, but you are sure that your education, age and maturity will enable you to lead the group towards a rich future for themselves and, more particularly, for you.

Carpenter's Role Play Brief- John

You are a skilled carpenter, and you almost succeeded in setting up a successful business for yourself. Only your lack of capital to buy machinery prevented you from establishing a successful business. You nevertheless were able to earn a reasonable amount, and to save \$150, by doing odd repair jobs for people in the town since you finished the course at the Vocational Institute.

You have joined this group of carpenters in the hope of earning more money through having access to proper equipment and to substantial customers. You would prefer to work on your own, or to employ others. You realise, however, that for the present at any rate, the co-operative offers you the best hope of proceeding towards this goal.

The others respect you for your skill as a carpenter, your experience of business and the fact that you were perhaps the most successful member of the whole course in terms of obtaining business for yourself. You are not sure that they wholly trust you, but feel confident that you are the best businessman in the group.

You like Bhatt, but think he is rather naive, and suspect that Eli is a rather pompous and impractical person; you are nevertheless prepared to work for them in the interests of your own long-term future prosperity.

Session

**4**

# The Market and Marketing

SESSION 4THE MARKET AND MARKETING

Objective: To enable participants to advise and assist members of a workers' co-operative to market and sell their products.

Time: 2 1/2 - 3 hours.

Material: Taped dialogue. (A suitably "localised" version of this dialogue should be recorded before the session. If this is not possible, two participants can enact the roles in front of the others. They should be warned and given copies of the script well in advance, so that they can rehearse the parts.)

Session Guide:

- 1) Ask participants to suggest what may be the most common problem faced by workers' co-operatives, particularly at the outset, assuming that they have some starting capital. If possible, refer to examples of workers' co-operatives, and other enterprises, which have failed because there was no demand for their products. Stress that members cannot expect customers to be waiting to buy whatever they wish to produce. The most important task at the beginning of any enterprise is to determine who will be the customers who will buy the products, and to determine how these products will be marketed to them.

Warn participants that they are about to hear a tape (or observe a simulation) of a meeting between George, one of the members of the proposed carpenters' co-operative, and a staff member of the local office of the Ministry of Education.

Participants should listen carefully and note down at the pauses specific comments on George's performance as the interview proceeds. They should realise that their role as advisers is not so much to criticise as to assist and suggest. If they feel that George did not represent the co-operative effectively, they should be ready to suggest what he, or the group as a whole, should do.

Remind participants of the previous session. The group were asked to find out about the market by actually attempting to sell some of their products. Following the adviser's suggestion, they have asked George to visit some potential buyers. He has decided to call on the stores manager of the local office of the Ministry of Education since the group plans to make school furniture.

- 2) After the tape has been played, or the meeting enacted, participants may ask for it to be repeated. If they do so, give them the opportunity of hearing it again. If necessary, a copy of the dialogue may be distributed to each participant at this point.

Participants should have no difficulty in identifying the mistakes made by George during the meeting. Go round the group, asking each participant in turn to identify an error at a pause and to state a general guideline which George appears to have neglected.

Participants may identify a number of errors, and state guidelines, other than those listed below. Ensure that all the significant ones listed here have been mentioned, and attempt to elicit at least one mistake and guideline from each participant.

Pause A: George gave the impression that he had only "dropped in" on Mr. Shah.

- Customers should be made to feel that their needs, and they themselves, are important to the supplier. When selling, make appointments, and have a clear objective.

Pause B: George re-emphasised his lack of a clear plan or objective by forgetting Mr. Shah's name.

- Suppliers should always try to know as much as possible about their potential customers.

Pause C: George made no attempt to explain his need for information, or to ask how he could help Mr. Shah. He merely stated his desire to sell.

- Marketing involves the satisfaction of customers' needs. A good salesman asks before he tells.

Pause D: As in the carpenters' original presentation, George appeared to believe that they had a right to sell their products, rather than a duty to satisfy customers.

- Nobody, least of all the Government which is handling the citizens' money, has a duty to buy anything. The supplier has a duty to find out what the customer wants, and to attempt to satisfy him.

Pause E: George rejected any suggestion of design changes and said that the co-operative would only make what they intended to make.

- Suppliers should find out what customers want and, if possible, help them to suggest changes and improvements. Remember, "the customer is always right".

Pause F: George had no samples to show Mr. Shah; Mr. Shah had no basis on which to make a buying decision.

- A supplier should always put himself in the position of the buyer; what information would he need before deciding to purchase?

Pause G: George was ignorant about the details of the proposed co-operative's products.

- A marketer must know everything that the customer is likely to want to know, and should not imagine that his job is only to market the product, leaving others to be familiar with the technical aspects.

Pause H: George's only response to buyer resistance was to offer a price reduction.

- For the want of other information, cheaper prices mean lower quality goods to a prospective customer. Good marketing consists of adding value, rather than reducing prices; the cheapest suppliers are rarely the best, the most profitable or the most successful.

Pause I: George had not found out the buying procedures or who were the actual decision makers in the Ministry. He also showed Mr. Shah that he now does not respect him.

- Before trying to market anything, it is vital to find out who makes the decisions and to promote the product accordingly.

Pause J: George was unwilling to offer delivery.

- Additional services such as delivery, while not adding anything to the physical product, can often make all the difference to the customer because they save him trouble and cost. Offering delivery is a good example of positive marketing.

Pause K: George was not even aware of what "payment terms" meant.

- Anybody selling anything must be fully prepared for all the questions he or she might be asked. Credit, or discounts for prompt payment, are another example of effective marketing which may cost far less to the supplier than it is worth to the customer.

Pause L: George continually referred to his need to consult with his colleagues.

- Customers expect somebody who comes to sell them something to be able to make decisions and to act on them. A salesman must have some discretion, or, if he has no discretion to alter the terms, must be clear what the terms are.

Pause M: George was not willing to work extra hours in order to satisfy the customer and get a first order.

- A co-operative, like any independent business, must compete in order to survive. Private entrepreneurs often work 12 or more hours a day, 7 days a week, for many months, particularly at the beginning of their business. Members of a workers' co-operative must be prepared to do the same.

Pause N: George had no illustrations of the co-operative's proposed products. He had no business card, letterheading or other indication of the whereabouts or identity of the

proposed co-operative, and in general, he showed no consideration to Mr. Shah, and treated him impolitely.

- While a supplier need not cringe to a potential customer, it is his task to satisfy the customer's needs. This implies providing the necessary information, and some respect, rather than inconsiderate behaviour, which the customer will inevitably associate both with the supplier and its products.

- 3) Lead participants to appreciate how this dialogue from a one-to-one selling situation includes most of the activities included in what is known as "marketing", by asking them to describe the most recent occasion on which they made a purchase. This may be of something as trivial as a newspaper or a packet of cigarettes, or something complex and expensive such as a vehicle or a house.

Ask a participant to suggest why he bought this particular item. Elicit the fact that the product itself was only part of the "marketing mix" which led to the purchase. Other factors, such as credit terms, packaging, promotion and information, after-sales service, the location where the product could be purchased and others also affect the sale.

Elicit from participants the concept of the "four P's", namely Product, Price, Promotion and Place (delivery). They can then apply this to the furniture to be made by the Alpha Co-operative, and should appreciate that George's approach was purely focused upon two of the four P's, namely Product and Price. He totally neglected other services such as delivery and information, and was not even prepared to modify the product in the light of clear expressions of preference by the potential buyer.

Stress that workers' co-operatives are often also called producers' co-operatives; their members are usually the actual makers of products, and there may be nobody with sales or marketing experience involved. One of the commonest reasons for failure is an excessive "production orientation", or emphasis on the product to the exclusion of the other aspects of marketing. A workers' co-operative, like any other organisation, must think first of the

customers and how to satisfy them if it is to satisfy its own members' need for employment.

- 4) Warn participants that they are now to have an opportunity of applying the "four P's" to the marketing task which faces the carpenters' co-operative.

Divide participants into the same groups as in Session 2. Allow them up to 45 minutes to prepare a simple set of suggestions as to what the proposed carpenters' co-operative should actually do to find and develop a market for its products. Ask the groups to be ready to present specific suggestions to the members of the Alpha Co-operative which, if followed, will enable the co-operative to discover what they should make, how they should be making it and, if possible, actually to obtain some initial orders.

- 5) Reconvene the groups. Ask the representative of one group to present their suggestions. Summarise the various points on the chalkboard/ohp, and ask representatives of the other groups to state any major differences, and to defend their own ideas.

Opinions will differ. Participants should be discouraged from suggesting complex marketing research surveys to workers' co-operatives, but it is vital that some attempt should be made to find out what customers want rather than merely offering what the co-operative happens to be able to make, or worse still, demanding, as George did, that customers buy it.

There is room for a number of different suggestions. The following simple outline may be used as an example of one feasible set of suggestions for a group such as the proposed Alpha Carpenters' Co-operative.

a. Obtain market information.

Categorise and list major potential buyers, possibly:

- government;
- traders;
- private individuals;
- institutions.

Visit as many as possible of the potential customers, with the specific objective of finding out the following.

- What is the customer buying?
- What problems do they have?
- What prices do they pay?
- What quantities do they buy?
- What payment terms, delivery service, information and other services do they need?
- What orders, if any, are they prepared to give now?

b. Decide on a marketing plan.

- What actual products will be made?
- What price will they be sold for?
- What delivery will be offered?
- How will they be promoted?

Set production schedule, calculate materials required, define scale of operations.

c. Implement the plan, and ensure that constant feedback of results permits rapid modification and change, when necessary.

- 6) As before, remind participants that the task of an adviser is not actually to do things for a workers' co-operative, but to advise and assist members to find out what they should do for themselves.

Ask participants to suggest what may happen if an adviser undertakes the marketing task for members, rather than letting them do this themselves:

- Members will not learn the needs of the market and will fail to adapt their products accordingly.
- The co-operative will depend on the continuing assistance of the adviser, and will fail to sell its products when he or she withdraws.
- The co-operative will be "subsidised" to the extent of the time the adviser spends. The cost structure may not represent this and the co-operative may not be able to afford to carry out the selling task itself when the adviser withdraws.

- Members will not develop the personal contacts with customers which are essential to continued marketing success.

One of the strengths of an adviser is that he is likely to have contacts which members themselves do not have. Stress that members should be introduced to such people as soon as possible, and, if necessary, forced to take over the selling and marketing task themselves even if they are reluctant to do so.

Taped DialogueGeorge Meets the Local Officer of the Ministry of Education

George: I happened to be in this part of town this morning.

(PAUSE A)

I am sorry to bother you Mr ..., I forget your name.

(PAUSE B)

Mr. Shah: Shah is my name.

George: Oh yes, I remember, Mr. Shah, but I am from the Alpha Carpenters' Co-operative and I hope that you will buy our furniture.

(PAUSE C)

Mr. Shah: Well, the Ministry is always anxious to help local businesses when it can, so tell me how I can help you and how you can help us.

George: Thank you. As I said, we are forming a new co-operative carpenters group here in Alpha. We know the Government gives special preference to co-operative groups and, after all, since we were trained by the Government-run institute, they must take responsibility for us after training.

(PAUSE D)

Mr. Shah: Well, I am not sure about that, but just how can I help you specifically?

George: We want you to buy our school desks. We make standard combined desk and chair units, in pairs, and the price is \$20 a pair. How many can we make for you?

Mr. Shah: Wait a minute, not so hasty. The Ministry is thinking of changing from the old combination sets to separate desks and chairs, they are said to be more comfortable. I can show you a sketch, what would you charge for these?

George: I am sorry, Sir, we only make the standard combination sets. I doubt if we could make anything else, unless you would take the ordinary household chairs we make.

(PAUSE E)

Mr. Shah: I am afraid not, maybe you could ask your friends what they could do. Anyway, we still do buy a few of the combination sets, to replace damaged ones. Where can I see a sample?

George: Oh, we haven't made any yet. They will be just like the ones you always use though, you can see them anywhere in your schools I am sure.

(PAUSE F)

Mr. Shah: We use all kinds of different timber, different finishes and so on. What wood do you propose to use, and what finish?

George: Uh ... Uh ... Just ordinary wood and varnish I suppose.

Mr. Shah: What about paint? Do you have special non-toxic paints, and how would this affect the price?

George: I don't know, we only planned to make varnished furniture, we think it is better.

(PAUSE G)

If you want, we could let you have some for a special \$5 discount, that is \$15 a set, just to start with.

(PAUSE H)

Mr. Shah: Well, you will have to make a quotation on the official form. I don't actually make the decision, you know. It has to go before the buying committee, and the secretary of that committee decides what to put forward to them.

George: Oh dear, I thought you were in charge.

(PAUSE I)

Mr. Shah: Never mind, I'll give you his name. Do you deliver the desks to the schools or only to our central depot?

George: I don't think we can deliver at all, we don't have a vehicle, our customers will have to come and get the goods themselves.

(PAUSE J)

Mr. Shah: I see, that may cause problems. What are your payment terms?

George: What do you mean?

(PAUSE K)

Mr. Shah: Well, when must we pay, what are your invoicing arrangements, and so on?

George: I have no idea, I'll have to talk to my friends about it.

(PAUSE L)

Mr. Shah: I see. How long would it take you to make up, say, ten sets, if we needed them in a hurry? These headmasters never let us know what they want until the last minute.

George: Let me think, we plan to work seven or eight hours a day, five days a week, I suppose we could do it in two weeks.

Mr. Shah: That would be too slow. Couldn't you make them any quicker?

George: I doubt it. After all, we have to stick to the official working hours, like everyone else.

(PAUSE M)

Mr. Shah: I hope you can do better than that. Still, we will have to think about it. Can you let me have a sketch of your desks, and an address where we can contact you?

George: I haven't got a sketch, but I have to go to an important meeting now. We will look forward to selling you lots of furniture.

(PAUSE N)

Session

**5**

# Premises, Equipment and Raw Materials

SESSION 5PREMISES, EQUIPMENT AND RAW MATERIALS

Objective: To enable participants to assist and advise members of existing or prospective workers' co-operatives to select and acquire appropriate premises, equipment and materials.

Time: 2 - 2 1/2 hours.

Material: Alternative proposals regarding premises, machinery and raw materials.

Session Guide:

- 1) Ask participants to suggest the major difference between the objective of an adviser to workers' co-operatives and a consultant whose task is to provide specific advice to well-established organisations.

Elicit the response that consultants have to suggest the best solution, while co-operative advisers, particularly to new groups, have to make the best suggestions but also develop within the group the ability to make such decisions for themselves in the future.

Ask participants what difference this is likely to make to the actual advisory process; it is likely to be slower, the adviser will work with the members and the final decision will very clearly be theirs.

- 2) If possible, the three sets of alternatives should have been distributed to all participants well in advance of this session in order to allow them to read them on their own and to come to some preliminary decision on what they ought to recommend.

If this has not been possible, distribute the papers now, and allow participants up to 20 minutes to study them on their own and to make a preliminary analysis and decision.

- 3) Divide participants into a minimum of six groups, the number in each group should not exceed four, but need not be the same for each group.

Allocate each of the three handouts, for premises, materials and machinery, to two or more groups, depending on the number. For each choice, there should be at least one group considering the decision from the members' point of view, and one acting as advisers.

Allow the groups up to 30 minutes to come to an agreed decision as to what they will decide to choose, or recommend to the carpenters. Warn them that they will have to participate in a meeting between the adviser and the members' representatives, in order to assist the members to come to an appropriate decision in each case.

The members in particular should try to act as such people would in this situation. They should have their own definite, if inappropriate, preferences, and should not use, or understand, jargon.

- 4) Reconvene participants and ask a representative of the advisers' group which studied the premises to advise the "carpenters" who have worked on the same decision. Set up the meeting so that all participants can see and hear what is going on, and allow up to fifteen minutes for the discussion.

After the first "adviser" has made his or her suggestion, and dealt with any comments from the "carpenters", ask any other groups which have also dealt with the premises choice to comment, and in particular, to identify and attempt to justify any significant differences between their suggestion and the one that has been presented.

Ask the "carpenters" to comment. Did they feel that they had been respected by the "adviser", and did they feel that their own ability and confidence to deal with such a choice themselves in the future had been enhanced?

Ensure that participants appreciate the need to allow and encourage the "carpenters" to make their own decision; the "advisers" should not tell them what to do, but should help them to make the right decision for themselves.

- 5) The presentation and accompanying discussions should have brought out the following points; ensure that they are all covered, by asking appropriate questions.

	<u>Advantages</u>	<u>Disadvantages</u>
OPTION A	Expandable on the same site.	Location far from business centre.
	Modern building.	Extravagant facilities, office, etc.
	Seller will arrange finance.	3 months delay in occupation.
	Total security.	Very high commitment.
		\$2000 initial cash needed. Monthly payment \$50 higher.
OPTION B	Central location.	Old building.
	Short commitment.	Little security of tenure.
	Immediate occupation.	No electricity.

These advantages and disadvantages may appear to balance one another. Remind participants that they should always advise people to negotiate, even when they appear to be in a weak bargaining position. How could the members try to "bridge the gap" between the two proposals?

- They might attempt to gain, say, two months' security on alternative B, and ask the owner to pay for the cleaning and other repairs, and to arrange for electricity to be installed.

Stress that while an adviser might offer to help with negotiations of this sort, particularly because acquiring premises is not a daily management problem, he or she should leave as much as possible to the group themselves.

The best solution is probably to choose B, with some re-negotiation if possible, since many co-operatives fail because of excessive debt burdens and facilities which give members and others the impression that they are wealthier and better established than they really are.

- 6) Ask a representative of one of the groups which was allocated the machinery alternatives to make their presentation to the "carpenters" in the same way as the premises choice was just presented. Ensure, as before, that he avoids a formal presentation and appreciates that the members must learn how to make and implement decisions themselves as well as being correctly advised.

The advantages and disadvantages of the two alternatives should be mentioned by participants. If they are not, elicit them as before and ensure that all the following points are recognised.

	<u>Advantages</u>	<u>Disadvantages</u>
OPTION A	<p>Latest model.</p> <p>Guaranteed by makers.</p> <p>Supplied complete.</p> <p>Installation included.</p> <p>Payments spread.</p> <p>Service engineer and advice available.</p> <p>Delivered to site.</p>	<p>Less labour used, fewer jobs created.</p> <p>High technology, hard to maintain and operate.</p> <p>\$200 extra cost per month for 2 years.</p>
OPTION B	<p>Tested by long local use.</p> <p>Less costly.</p> <p>Local service experience.</p> <p>If damaged, more easily repaired.</p>	<p>May break down.</p> <p>Higher cash payment.</p>

Final conclusions will depend on local conditions with which participants are familiar, such as availability of sophisticated spares and service, level of member expertise and the relative costs of labour and of capital, which affect decisions on whether to use equipment or people.

They should remember that relatively unskilled people may damage or fail to make the best use of very modern machinery. In addition, spare parts may become unavailable through import restrictions, even if at present there are no problems.

The carpenters should probably be advised to choose B and to attempt to negotiate a lower price and some period, even a month, of working guarantee.

Prospective members may feel that they should have nothing but the latest and the best. It is vital for advisers to help them realise that they should limit their commitments and progress step by step. A broken down or under-used modern machine is not a sign of success, so much as an older but well used and efficiently working model.

Ask participants to suggest a definition of good management. Elicit a form of words which covers the concept of "making the best use of resources", stressing that it is often all too easy for a new workers' co-operative to obtain resources such as buildings, equipment and advice. What is more difficult, and more important, is to use them in the most efficient way.

- 7) Follow the same procedure with the raw materials options. Here it is even more important to develop the independent ability of the carpenters, since they will have to make material buying decisions themselves very frequently, and they will not be able to rely on the adviser.

Elicit the following arguments for and against each alternative as before.

	<u>Advantages</u>	<u>Disadvantages</u>
OPTION A	Credit payment.	Between \$1.50 and 50 c per meter more expensive.
	Delivery included.	Less labour needed.
	Rapid delivery.	
	Advisory service.	
OPTION B	Co-operative supplier.	Variety not specified.
	Inexpensive.	Price not fixed.
		Cash payment.
		Delivery not certain.

Participants should appreciate a number of points from this last choice. Elicit these by appropriate questions:

- Credit is never free, it is a loan, and has to be paid for in lower quality, higher prices or in some other way.
- Co-operative suppliers and customers can be given preference but only if the terms, quality and other features of their offer are as good as other suppliers.
- So-called "free" extra services, such as delivery, advice and so on, are the same as credit; they cost the supplier money, and the customer pays in one way or another. This does not mean that such services are not worth buying, but only that they are not really free.
- Clear-cut alternatives, such as those presented in this session, are not so clear-cut in real life. It is often possible to combine the benefits of two or more offers.

The final recommendation may well be such a combination. Attempt to elicit the following suggestion if it has not already been proposed.

- Large orders for long-term needs can be bought from the co-operative, the material can be inspected to ensure its quality and delayed delivery need not be a problem. Finance can also be arranged in advance to allow for cash payments.

- Small orders, or urgent requirements for special jobs can be purchased from the larger company, where the higher cost is justified by the need. In this way, the average price of materials can be kept down below the highest levels.

Ask participants to identify the disadvantages of buying in large quantities, even if the price is much lower. Elicit the following.

- Finance will be tied up in high stocks.
- Storage, insurance and security are expensive.
- The materials may become obsolete or may deteriorate.

Remind participants of simple stock control methods they may have learned, or stress that they should learn such techniques before advising workers' co-operatives on raw material purchases.

8) Ask participants to recall examples of purchases which co-operatives, or they themselves, have made where there are similar issues involved.

- Have they bought an item because it was available on credit, even if it was not otherwise the most attractive or the best value?
- Have they been persuaded by a persuasive sales person, or advertisement, to buy something which was not good value, or which they did not need?
- Have they been attracted by the fact that something is "the latest" or "imported" so that the wrong thing has been bought?

Stress that mistakes of this sort are trivial when they involve a brand of cigarettes, and are an individual's own responsibility when they involve a car or similar consumer durable.

If a new or existing workers' co-operative makes this kind of error, it may:

- destroy the co-operative;
- destroy the members' jobs;
- damage the public "image" of co-operatives;
- waste public funds which have been lent to the co-operative.

It is therefore vital that advisers should ensure that workers' co-operatives do not make these kinds of mistakes; they should generally err on the side of modesty, caution and economy.

Ensure that all participants appreciate that members of workers' co-operatives should feel free to ignore any advice they may receive from outsiders or anyone else. Advisers should indeed encourage members to be independent in this way. They should remember that if the co-operative fails, the members will lose their jobs and their investment; the adviser will still have his position.

Premises AlternativesAlternative A

Location: Town industrial area, three km. from city centre.

Area: 250 square metres.

Site area: 350 square metres.

Building type: Sole occupancy of modern single span industrial shed, heavy gauge sheeting, full insulation.

Facilities: Wash room, lavatories, full height roller doors, separate office space, ready carpeted.

Services: Reliable electricity mains, gas, water and telephone connections available.

Cost: \$20000 freehold.

Finance: Ninety per cent mortgage can be arranged with the Co-operative Housing Bank. Deposit \$2000, balance payable over 20 years at \$150 per month.

Occupation: Premises will be ready for occupation in three months from date of contract.

Alternative B

Location: City trading area, 500 metres from town centre; light workshop activities are permitted by municipal authorities.

Area: Approximately 240 square metres.

Site area: These premises are the ground floor of a disused school, the other floors, and the surrounding site, are not included in this offer.

Building type: Traditional wooden building, concrete floor.

Facilities: The premises share washing facilities with other tenants in the old school toilets. There is adequate loading space in the yard.

Services: Electricity mains can be re-connected by arrangement. Water is available in the yard.

Cost: \$100 per month, payable monthly in advance.

Terms: Licence for occupation, to be terminated by either side at one month's notice.

Occupation: Immediate, after premises are cleaned out, disinfected and repainted.

Machinery AlternativesAlternative A

Item: 1986 labour-saving fully programmable planing machine complete with smoothing and rip planing attachments.

Manufacturer: The International Machinery Corporation, London.

Price: \$5000 complete with motor and installed in your premises.

Payment terms: Cash on delivery, or twenty per cent deposit, balance payable in 24 monthly instalments of \$200 a month through leasing contract with Leasing International Corp.

Guarantee: One year, assuming no misuse.

Service: Our trained engineers and spare parts are on call 24 hours.

Extra Facilities: We can provide training on our machines at special reduced fees for purchasers.

Delivery: Machine delivered and installed at your premises.

Alternative B

Supplier: Used Hardware and Equipment Co.

Machine: Planing machine, less motor.

Manufacturer: Unidentified, this machine has been giving reliable service in the railway workshops for at least thirty years. The motor has burned out, and the railway authorities have replaced the machine with a new model.

Guarantee: If we are asked to find a motor, we shall install it, and guarantee that the machine will be in working order when you collect it. Otherwise, it is at your risk.

Cost: \$1000, including motor, payable in cash on collection.

Service: The engineers who used to service this machine for the railway say they have some spares and would be willing to service it for any new buyer. The original manufacturers are unknown.

Raw Materials AlternativesAlternative A

Supplier: Consolidated Timber Supplies Incorporated.

Materials: Grade one softwood planks, rough planed to  $\pm 5$ mm.

Price: Five dollars per board metre equivalent.

Payment terms: Subject to satisfactory references, 60 days from date of delivery.

Delivery: By our own transport, calling twice weekly; no charge for deliveries worth \$100 or more.

Delays: We can guarantee that any order for softwood can be delivered the same week.

Other services: We offer a no-charge advisory service on suitable finishes, curing, adhesives and design. Our representatives, fully trained in timber engineering, call on all customers weekly.

Alternative B

Supplier: The Village Sawmills Timber Co-operative. (5km from town).

Materials: Local softwood, cut to thickness and length,  $\pm$  approximately one centimetre.

Price: Between \$3.50 and \$4.50 per board metre, depending on current market conditions etc.

Payment terms: Cash on delivery, customers must collect their orders on Wednesday or Friday afternoons from the mill.

Delay:

We attempt to have all orders which are received in any week ready for collection by the end of the following week. Weather or cutting programme changes sometimes make this impossible.

Session

**6**

# Pricing and Product Selection

SESSION 6PRICING AND PRODUCT SELECTION

Objective: To enable participants to advise and assist members of workers' co-operatives to assess their capacity, set optimum prices and choose the best work for their societies.

Time: 2 - 3 hours.

Material: Exercises A and B.  
Case study "The Disagreement".

Session Guide:

- 1) If possible, participants should be given Exercise A some time before the session, in time for them to complete the exercise on their own. They should not do the exercise in groups, since it is vital that every individual understands the simple techniques which are needed.

If this is not possible, give out the exercise at the start of the session, and allow participants up to 30 minutes to complete it. Do not allow them to help one another at this stage.

- 2) Ask one participant, preferably one who is likely to have had difficulty with the exercise, to give his answer to Exercise A. Ask him or her to attempt to explain the calculations to fellow participants.

Remind participants that they have two tasks; as always they must be able not only to give the right advice, by knowing how to analyse business situations, but also to develop the ability of the members to do this for themselves. Those participants who solve the problem in the exercise without difficulty should use this as an occasion to develop their skill as one-to-one trainers. Those who need such "training" should be ready to comment on the skill of their "trainers" at the same time as they learn from them.

3) Unless all participants have solved the exercise correctly without difficulty, work through the analysis, eliciting responses rather than merely telling them the answer. The following sequence of questions can be used:

- How many man-days of production time are available each month?

8 members x 25 days = 200 days.

- How many man-days does it take to make one set?

Chair 1 day, Desk 1.5 days, total 2.5 days.

- How many sets can they make in a month?

200 divided by 2.5 = 80 sets.

- How much surplus will the members make on 80 sets, after the costs have been covered?

Sales: 80 sets at \$25	\$2000
Materials: 80 x \$15	\$1200
Wages for 8 "producers"	400
Wages for John and Eli	100
Hire purchase charges	100
Electricity etc.	100
Rent	100
Total costs	\$2000
Surplus/Loss	Nil

One or more participants may suggest to use simple algebra for the problem, in the following way:

Let  $x$  = the number of sets of desks/chairs to be made per month for the co-operative to break even:

Sales must equal costs.

$(15x + 10x)$  must equal  $(800 + 9x + 6x)$

that is  $25x = 800 + 15x$

$25x - 15x = 800$

$10x = 800$

$x = 80$  sets

If this calculation is put forward, ask participants why it is not the best approach for an adviser to use it in these circumstances.

- Members such as the carpenters are unlikely to understand it. An adviser must remember that his/her task is to help members to answer such problems themselves, not to work out the answers for them.

- 4) Use this exercise to introduce participants to the concept of fixed and variable costs. Ask them to identify the critical difference between the costs of timber and other materials, and the rent, hire purchase or other charges. If necessary, elicit the answer by asking them to say what will happen to each of these costs if the co-operative is less or more busy; clearly materials will vary with the level of activity, while the other charges will be approximately fixed.

Trainees may object that depreciation is not included. Since the equipment is hired it does not belong to the society, and the hire purchase charge covers the full cost of its use. The members' handtools belong to them personally, and the society should not allow anything for their depreciation.

Ask participants to suggest the implications of the two types of costs for pricing and the survival of any enterprise.

- The total revenue received, less the variable costs, must be sufficient to cover the fixed costs.
  - The objective should not be to maximise sales, but to maximise the "gross margin", or the difference between sales and variable costs.
- 5) Distribute Exercise B and allow participants up to 15 minutes to complete the assignment. Ask a participant to suggest the answer. As before, ensure that all participants have understood the problem and made an attempt at an answer. Do not allow them to forget the "training" part of their job. This is a simple exercise, and participants may calculate the total cost of \$110, and estimate a selling price somewhat above this, without any guidance. If they do not, work through the exercise by eliciting answers to these questions:
    - What is the variable cost of each set of furniture?

- What will be the cost of labour for each set?

Materials cost	\$100
Labour: 5 days at \$2	\$ 10
	<hr/>
"Total" cost for each set	\$110

- Should the co-operative quote a price of \$110? Will any excess over \$110 be surplus?

Ask participants what will be the result if the co-operative makes ten sets of home-furniture for \$110, and use the remaining time for school-desks/chairs at \$25:

Production: 50 man-days are needed to make 10 sets of home-furniture. 150 man-days remain to make school-desks/chairs, i.e. 150 divided by 2.5 = 60 sets of school-desks/chairs can be made.

Sales:	10 sets of home-furniture at \$110	\$1100
	60 sets of desks/chairs at \$25	1500
		<hr/>
		\$2600

Costs:	Home-furniture material at \$100	\$1000
	School-desks/chairs material at \$15	900
	Wages	500
	Other fixed costs	300
		<hr/>
		\$2700
	Loss	(\$100)

- What is the "right" amount of contribution to allocate to each set of home-furniture to cover the fixed costs; how much should each man-day contribute to the fixed costs?

\$400 total fixed costs divided by 200 man-days per month equals \$2 per day.

- Should the co-operative calculate the price by adding materials and labour and 5 days times \$2 contribution per day, total \$120 per set?

This price will be no better than the chairs and desks for the Ministry of Education. It will enable the co-operative to "break even", but not to make any profit or surplus.

- Why should a workers' co-operative try to make a profit? Surely this is a capitalist concept, and a co-operative is intended to make a living for its members and to provide reasonably priced goods or services to the community. Why should the carpenters try to get any more?
- What is the use of profits; what problems might the carpenters face if they only "break even"?

The carpenters want to earn more than \$50 a month; they will need more money for new investments and expansion, and they will need a "cushion" in reserve in case something goes wrong.

- How much should they add on to the \$120 cost?

This will depend on their estimate of the competition and their need for profits to increase their own earnings. If they do not know, they should possibly add about 10%, or \$12, making a total of \$132 per set. They may add more, in view of the large amount of raw material in each set, with the risk of damage or waste.

A price of \$140 per set might be reasonable.

- 6) Distribute copies of the case study. Allow participants up to 30 minutes to complete the assignment, working individually or in pairs.

Reconvene the group and ask participants to present their answers. Stress that, like most management decisions, this is not easy. The task of the adviser is to ensure that members appreciate the results of each possibility, and the intangible issues, so that they can make their own decision.

Elicit the following two possibilities, ensuring that all participants understand the basis of the calculation of the capacity of the co-operative, measured in man-days.

ALTERNATIVE A: Home-furniture, school-desks/chairs and on-site joinery.

10 sets home-furniture, 50 days at \$140	\$1400	
28 sets school-desks/chairs, 70 days at \$25	700	
8 men 10 days on site, 80 days at \$3.50	280	
	<hr/>	
TOTAL REVENUE		\$2380
Materials: home-furniture 10 sets at \$100	1000	
school-desks/chairs 28 sets at \$15	420	
Wages	500	
Other fixed costs	300	
	<hr/>	
TOTAL COSTS		\$2220
		<hr/>
SURPLUS		\$ 160

ALTERNATIVE B: Home-furniture and school-desks/chairs only.

10 sets home-furniture at \$140	\$1400	
60 sets school-desks/chairs at \$25	1500	
	<hr/>	
TOTAL REVENUE		\$2900
Materials: home-furniture 10 sets at \$100	\$1000	
school-desks/chairs 60 sets at \$15	900	
Wages	500	
Other fixed costs	300	
	<hr/>	
TOTAL COSTS		\$2700
		<hr/>
SURPLUS		\$ 200

- 7) Elicit "intangible" reasons for and against each alternative, which may outweigh or add to the relatively insignificant financial advantage of \$40 in favour of turning down the offer of on-site work.

For:

- The builder may have other more profitable work to offer, so that his goodwill should not be lost.
- The Ministry work may not always be available; the co-operative should possibly maintain this contact in case they need it in the future when they have no alternative.

- One or more members may prefer or need to develop his skill at on-site joinery as opposed to carpentry in the workshop. This may be a chance for "on the job" training.
- Hira's initiative should not be discouraged.

- Against:
- Members may be tempted to leave the co-operative if they could be working for \$3.50 a day on their own.
  - If the members wish to build a genuine industry, as opposed to a contract labour gang, they should concentrate on workshop jobs with a higher contribution to fixed costs.

Stress that the final decision is not easy to make, since the financial results are so finely balanced and there are strong intangible arguments on both sides. Neither decision is right or wrong; it is important that advisers, and co-operative members, should know how to evaluate alternatives in this way.

- 8) Ensure that all participants have grasped the issues involved, and that the advisers have acted effectively as trainers as well as consultants.

Remind participants of what they have learned. Stress that many co-operatives do not even know, or realise that they should know, the value of material used in each product, or the time taken to make it.

Calculations of fixed and variable costs, and allocation of the fixed costs, as shown in these exercises, are impossible without basic records of costs and amounts of materials, and time spent on different jobs. These are not dealt with in this course, but advisers must be sure that they, and members whom they are trying to assist, have and can use the simple paperwork which is necessary for decision making.

Exercise A: School Furnishing

The members of the proposed co-operative were ready to start operations. Their adviser helped them to register their new co-operative, and they rented the ground floor of the disused old school near the centre of town, arranged for the hire purchase of some secondhand but quite serviceable equipment from various sources, and prepared to start work.

Their efforts with the local office of the Ministry of Education were soon well rewarded, and the group was pleased to be offered a contract to make school chairs and desks.

The Ministry paid the same price to all suppliers, namely \$10 for the chairs and \$15 for the desks, but the local offices had a directive to buy from local suppliers whenever possible, and to favour co-operative groups so long as they could make the furniture for the same prices and their quality and delivery were competitive. The designs of the chairs and desks were deliberately simple, so that they could be made by local carpenters without sophisticated machinery.

The members had arranged to buy suitable timber from the Timber Co-operative at a good price. Based on this price, they had calculated that the wood, screws and varnish for each chair cost six dollars and for each desk nine dollars. They also estimated that it would take one member one day to make one chair, while one man could make two desks in three days.

The members had agreed that they would work 25 days a month. Eli had agreed to act as the clerk and organiser of the work in the workshop, while John was responsible for selling and relations with customers. This meant that of the ten members, only eight were available for actual production. They agreed that it would be necessary to have these two important but "non-productive" members, since the co-operative needed to have its work organised and needed customers. If they all worked only as carpenters, administration and selling would be neglected.

After some discussion, the members also agreed that they would at first take only \$50 a month each from the co-operative. This was below what a

skilled carpenter could earn, but since they had been more or less unemployed before, anything was better than nothing. They also realised that funds would be scarce at the start.

In addition to their own wages, there were a number of other payments which they knew they would have to make every month, whether or not they had any work to do. They had to pay rent of \$100 a month, with a further monthly \$100 for hire purchase payments for their equipment. Electricity, water and local taxes, together with a share of the cost of maintaining the building and yard, and security, would come, they estimated, to a further \$100 each month.

The Ministry would only accept chairs and desks in equal numbers. They asked the co-operative to state how many they could deliver a month, at the fixed prices specified.

The members knew that the Ministry was a "tough customer", and that several local carpenters had gone out of business trying to make furniture for such contracts. They also knew, however, that they were paying themselves very modestly and that they hoped to run an efficient business; many of the local carpenters had been far from efficient.

They asked their adviser to suggest how they should respond to the Ministry's offer, since they had no other work and were anxious to start at once.

Assignment:

Advise the co-operative, and in particular answer the following questions:

- How many chair and desk sets can the co-operative make, if the members make nothing else?
- If they make this number, will they make a surplus, or will they lose money, and how much?

Exercise B: Home Furnishing

The members of the Alpha Carpenters' Co-operative were pleased that they had obtained a contract which would keep them fully occupied and would not lead to losses. They realised that their wages would be very low, and that there would be no surplus to reinvest in the business, but this seemed to be a good start so they determined to spend all their time on the desks and chairs for the Ministry of Education.

As they were about to start, however, John, who was responsible for sales, came up with what seemed to be a very attractive opportunity. A large builder in the town wanted to buy sets of furniture to build into the houses he was constructing in large numbers. He had shown John some samples and given him drawings. Unlike the Ministry, however, he did not give his suppliers a price to work to; he asked them to send in quotations, and selected those which were the lowest price, so long as he was confident of their quality and reliability.

John and the other members calculated that the timber and other materials in each set of furniture would cost \$100 per set. They estimated that it would take one member five days to make each set.

The builder had given John no idea of what price he was willing to pay, and no other carpenters in the area had made the same pattern before. John and his colleagues had therefore to estimate how much it would cost them to make each set of furniture, and then quote a price to the builder.

Assignment:

Advise the members on what price they should quote to the builder.

The Disagreement

Alpha Carpenter's Co-operative submitted a quotation of \$140 for each set of furniture to the builder, and were very happy when he told them that he wanted them to deliver ten sets as soon as possible. He said that if he were satisfied, the Carpenters could confidently expect a similar order each month.

Eli estimated that they could produce ten sets a month for the builder and would still have time for sixty sets of desks and chairs for the Ministry of Education. This would fully occupy the eight production members, and would also earn a surplus which they could use as they thought fit for themselves or for the expansion of their co-operative.

They had just started to get down to the actual task of acquiring the materials and organising the work when Hira, who had worked for some time with his father and knew many people in the building trade, arrived one day with a new suggestion.

He had been talking to some of his father's friends about the problem of finding good and reliable joinery workers. He had described the new co-operative and one of the bigger builders had been very impressed. He had made a few enquiries from the Vocational Institute about the skill and seriousness of the members, and said that he would be willing to help them by providing all of them with ten days of regular work every month, and possibly more, for a fixed rate of \$3.50 a day. This was about one dollar more than he usually paid to casual workers, but he could never be sure of their ability or their honesty. He thought it would be worth paying more to get reliable workers, and he wanted to encourage the new group in any case.

Hira was very keen on this opportunity, and argued strongly that they should accept the offer. After all, he said, they were only paying themselves two dollars a day; this work would earn a further \$1.50 for the co-operative. The work would involve no outlay for materials, and would all be on building sites, making no use of the workshop. The members would use their own tools, and the builder would deal with all the management for them. The members would only have to turn up at the

right places, on time, and the builder would even provide transport to the sites when this was necessary.

A number of the members agreed; they had been very disappointed when it was decided that they would only earn two dollars a day from the co-operative, and this seemed to be a good way to improve their incomes very quickly, without having to bother with all the management time and problems involved in manufacturing furniture in the workshop.

Eli and John, and one or two others, disagreed. They argued that they had already calculated, and all the others had agreed, that it cost \$400 a month, or two dollars per member per day, to support the co-operative, in addition to paying wages to members. This on-site work would only earn \$1.50 a day, after paying the member his two dollars, so they would lose fifty cents a day for each member that worked for this builder on these terms. Surely it would be better, they argued, to work on the desks and chairs for the Ministry, which at least covered their share of the fixed costs, and to try to get more profitable work like the furniture for the other builder?

Assignment:

Decide how you will advise the group, and be ready to talk to all the members, or their representatives, in order to reconcile the disagreement.

Session

**7**

# Financial Management

## FINANCIAL MANAGEMENT

### Session Guide:

- 2) Participants may suggest that the profit is too low, or that it is unwise to rely on only two customers for all their business. Remind them that most new enterprises lose money at the start; even

a small surplus such as \$200 will be an unusual achievement. Ask participants if there is anything more fundamental that the members should find out, before starting operations.

If participants do not themselves come up with the issue of the timing of the movements, or flows of cash, ask them to recall the major difference between the two possible sources of timber. What did the more expensive supplier offer, in addition to better quality and other services?

- This supplier offered credit; the carpenters would not have to pay for the timber in cash when it was delivered but could delay payment until the end of the following month.

Stress that the timing of cash flows can be more important than their amount; which is more useful to a starving man, a crust of bread today or a full meal in one month's time?

- 3) Ask participants to recall the most recent occasion when they were unable to buy something; was this because they did not have the necessary money at the right time, or because they would never have it? Demonstrate that "being broke" is generally a matter of timing rather than amount.

Anyone planning to start or to run any sort of business must know not only how much money will be earned and spent but when it will be coming in or going out. Participants will now have the opportunity to see the effects of failure to plan cash flows, and to remedy the situation by planning for the future.

- 4) If possible, distribute the case study well before the session, so that participants have the opportunity to read it in advance. If this has not been possible, distribute the case study now, and allow participants up to 30 minutes to read it on their own.

Divide participants into pairs, so that those with less knowledge of financial management techniques can be advised by those with greater understanding, and allow them up to 30 minutes to complete the assignment. Stress that in order to advise the members, they must be able to calculate the answers themselves.

- 5) Reconvene the group. Ask a representative from one pair to present their answer to the question posed by the banker; how much more money do the Carpenters' Co-operative need, and when will they be able to repay it?

Elicit through discussion a presentation of the figures for cash in and cash out in the following form. Participants' assumptions as to the exact timing of each item may differ, but it is vital that all should understand this basic layout and method of analysis.

Item	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
<u>Cash In:</u>						
Own Capital	500					
Grant	500					
Ministry			1500	1500	1500	1500
Builder	280	1120	1400	1400	1400	1400
Total in	1280	1120	2900	2900	2900	2900
<u>Cash Out:</u>						
Rent	100	100	100	100	100	100
Hire Purchase	100	100	100	100	100	100
Services etc.		100	100	100	100	100
Wages		500	500	500	500	500
Materials	1900	1900	1900	1900	1900	1900
Total out	2100	2700	2700	2700	2700	2700
<u>Balance</u>	- 820	- 1580	+ 200	+ 200	+ 200	+ 200
<u>Cumulative Balance</u>	- 820	- 2400	- 2200	- 2000	- 1800	- 1600

- 6) Ensure that participants do not make the mistake of treating this layout as an end in itself. What does it tell them about the financial needs of the Carpenters' Co-operative, and what do they recommend should be done?

- If the carpenters attempt to go on without any further capital, loans or other finance, they will have to stop operations in a few days.

This should be clear to the members without any financial analysis or calculations. They have only to look at the stock of raw material and the cash box, to realise that they cannot go on much longer. Paying wages will be quite impossible.

How much money do the carpenters need?

- At the end of the first month they will need \$820; by the end of the following month they will need \$2400, and only after that will their cash deficit start to decline.

Stress that the group are still making profits, even as their deficit grows during the first two months. This dramatically demonstrates that the timing of cash is what matters, not the amount, in the short term. Profitable bankruptcy is very common.

- 7) Ask participants to estimate how much money the group should try to obtain from the bank. They may suggest borrowing the exact amounts that are shown by the calculations to be needed. If so, ask how much money will be left in the cash box if they obtain these amounts each month. Why is this not practical?

- It leaves no margin of safety for unexpected needs, it assumes everything will go exactly as planned, which it never does.
- If a good opportunity for more work comes up, which needs more raw material, they would not be able to buy the material and might lose the sales.
- It makes no allowance for the interest they will have to pay on whatever they borrow.

Ask participants how much interest they will have to pay in month two if they borrow \$2400 for the month; at 12% per year this will be 1% or \$24. This is not a great deal, but it is enough to put the co-operative into a cash deficit if they do not borrow more than the absolute minimum.

- 8) Elicit the suggestion that they should attempt to borrow \$3000 which would give them a reasonable margin for unforeseen problems and opportunities. Ask participants when the carpenters will be able to repay such a loan.

- If they maintain the estimated rate of profit, they would be able to repay at a rate of \$200 a month, less the interest payments. This would mean that the total amount including interest could be repaid in 15 months.

Would this be a wise offer to make to the banker? Are there any other ways in which the carpenters might wish to use their profits, rather than using all the profit to repay the loan?

- Members might want to pay themselves a small bonus at the end of their first year, although this should only be paid if they have done at least as well as forecast.
- They will have to pay \$50 interest on the capital they themselves have invested.
- They may well want to buy some new machinery or other equipment.

The banker may not want them to use all their profits to repay the loan, if he is willing to lend them money at all. Banks make their profits by lending to well-managed businesses, and they do not want to encourage their clients to starve themselves of funds.

- 9) In order to ensure that all participants fully understand the method of analysing cash flows, ask those who may be less confident to show how the original table, which should be displayed on the chalkboard/ohp, should be modified if certain changes are included. Possible changes include:

- wages are agreed to be paid weekly;
- the Ministry pays a month later than expected;
- the Timber Co-operative allows them one month's credit.

In the following session, participants will have an opportunity to consider how the carpenters will actually go about getting the mo-

ney they need. All they may have learned about analysis is only of any value if it helps them to explain to members of co-operatives how to forecast the cash flows in their own enterprises. They must not only know how to analyse the figures themselves, but also how to explain to others how to do it and use the results to make better use of their finance, and when necessary, to help them obtain more funds.

Profits without Cash

The members of Alpha Carpenters' Co-operative were quite satisfied with the way in which they had succeeded in getting their new venture started. At first it had been uncertain whether or not they would be able to raise the necessary finance, because their own funds were very limited indeed.

Five of the members were willing to invest their savings, which came to a total of \$400. The remaining five, although they had no ready cash, realised that they would have to put in something themselves. They succeeded in persuading family and friends to lend them a few dollars, so that in the end they each put in \$20. This made a total of \$500, and a local welfare agency offered to match this with a grant of a further \$500. With a total of \$1000 the members decided that all would be well.

They were planning to make 60 sets of desks and chairs for the Ministry of Education each month; each would need \$15 worth of materials, and the selling price was \$25 a set. They were also making ten sets of furniture a month for a building contractor. He paid them \$140 a set, and the material would cost \$100 for each set. They could only get these prices for materials from the Timber Co-operative, who had to be paid cash on delivery.

The members planned to pay themselves only \$50 a month as wages to start with. They had to pay out one month's rent of \$100 in advance, and the same amount for the first month of hire purchase charges. They knew that they would also have to pay yet another \$100 early next month for the electricity and other charges.

They still had \$800 after making the two advance payments. They bought \$300 worth of timber for the desks and chairs, and \$300 for the home-furniture, from the Timber Co-operative, and paid cash on delivery as requested.

This left a balance of \$200 in cash. Since they now had everything they needed to start, this seemed to be a useful reserve. They knew from their calculations that they would be making a reasonable profit every month, so they were well content. They had earlier agreed that they

would not draw their own wages until the first week of the following month.

They started work full of confidence on January 1st. They delivered the first supplies to the Ministry and to the builder, and both said they were very pleased with the standard of workmanship.

After about a week, however, the supply of raw materials, particularly for the furniture sets, was almost exhausted. Eli said that they would have to have some more, and they were pleased to discover that the Timber Co-operative happened to have some of the right sizes ready cut. They wanted to buy \$250 worth, but when they realised that they only had \$200 in cash they settled for the lower amount and brought it back to the workshop.

The following day, however, Chuck and Fred came to Eli and asked for the money they had earned during the first week: a total of ten dollars each. Eli reminded them that the Government and private companies only paid their employees at the end of the month. The two members argued, however, that they were earning so little that surely they could be paid every week. In any case, they had been without work for so long that they had to have a few dollars just to pay back some of what they owed.

Eli showed them the empty cash box. He explained that there was no money. Fred and Chuck spoke to the fellow members, and they came to Eli in some alarm. Was their splendid new co-operative bankrupt already, they asked. What had happened to all the surplus they had talked about, or had someone been putting money in his own pocket, as so often happened in farmers' co-operatives?

Eli called John; why had their customers not paid them any money, he asked. John went at once to the Ministry of Education. His friend, the stores manager, was not there, but when he asked another official about payment he was told to refer to the central payment office in the capital city. The official asked him when the furniture had been delivered.

When John told him that the goods had only been delivered the previous week, he laughed. There was little chance, he suggested, that they

would get a cent before the end of the following month, at the very earliest.

John went in some alarm to his friend the builder, and explained the position. The builder said that he normally paid at the end of the month, like most private businessmen. When John told him what the Ministry official had said, he nodded and said that that was why he never did business with the Government.

Eventually the builder offered to give John \$280 for the two sets of furniture the carpenters had already delivered. He only agreed to do this on condition that John agreed not to pay himself or any of the other members any of the money, but to keep it for materials. How else, he asked, would they be able to keep on making what he himself had ordered, quite apart from the desks and chairs for the Ministry.

John reported back to Eli and the others what the builder had said. They quickly agreed, after some protests from Chuck, that nobody would get any wages yet. They realised that they could not expect the builder to do this again, and agreed that they would have to look around for more funds from elsewhere. Otherwise, they realised, they would not be able to make the goods that would earn them the surplus they expected.

Eli and John went to the local bank manager whose assistance they had hoped they would not need. They explained the situation. He said he would consider any reasonable request they made. How much did they want, and when would they be able to repay it?

John and Eli realised in some embarrassment that they did not know. They went to their adviser, and asked him how they could work out what to ask for.

Assignment:

Advise the members on how to work out the answers to the banker's questions.

Session

**8**

# Sources of Finance

SESSION 8SOURCES OF FINANCE

Objective: To enable participants to assist members of workers' co-operatives to identify appropriate sources of finance.

Time: 2 hours.

Material: Case study "Where to Get Money from".

Session Guide:

- 1) Remind participants of the situation of the carpenters; they concluded that they needed to ask the bank for \$3000, and now had to try to obtain it.

Ask participants to imagine that they are the manager of the bank to which the members addressed their request for finance. Based on what they know about the society and its prospects and management, would they, as bankers, be willing to lend \$3000 to the Carpenters' Co-operative?

Ask participants to write down, individually, their answers, and a note of their reasons. Allow them up to five minutes to do this. They must decide one way or the other; they may want additional information, but must make a decision now, without extra data. Many banks have to make decisions on lending to new enterprises with less information than they have now, particularly when political considerations are involved.

Ask those who are willing to lend the money to raise their hands and count them. Now ask those who propose to refuse the funds to raise their hands. Make a note of the totals on each side on the chalkboard.

- 2) Encourage a discussion in order to elicit the arguments in favour of acceptance and rejection. In the event that no participants are in favour of rejection, or of acceptance, be prepared to play the part of the minority yourself. Do not, at this stage, allow dis-

cussion of whatever further information may be needed; first, participants must take a position on the data they have.

Attempt to elicit the following reasons for agreeing to lend the carpenters what they have asked for:

- The members have already demonstrated their commitment by investing \$500 of their own money.
- The carpenters have already received a grant for \$500; this indicates that another agency has found that they merit support.
- The money that the members and the granting agency have invested will be 25% of the total investment in the new co-operative. This is a significant proportion, and the bank can be sure that it will be entitled to repayment of its \$3000 from a total investment of \$4000; this allows some margin for losses.
- The group have secured orders, rather than promises or anticipations from market research, which will enable them to make a small profit from the very beginning. This is unusual for any new enterprise.
- The members have shown their commitment, and proved their ability, by obtaining orders and by answering the adviser's questions fully. This augurs well for the future of the co-operative.
- The members have all received a full year of training in the skills needed for their enterprise.
- The members have prepared credible estimates of cash flow which show that the loan and interest can be repaid within 15 months.
- The group started to work together on their own initiative, and have worked together effectively so far.
- The members propose to pay themselves at a very modest level; there is no evidence of irresponsibility.
- The beginnings of a leadership structure have already started to emerge, without prompting.
- Payments could be made direct to suppliers, thus maintaining some control over the carpenters.

- The loan will create jobs for 10 people; an investment "cost per job" of \$300 is very low. Alternative uses of the money would be unlikely to generate as many jobs.

3) Elicit the following reasons against lending the money:

- If they borrow \$3000 as they have asked, the members will only have themselves contributed one eighth of the total investment; this is not enough.
- The bank should not have to bear three-quarters of the risk. The members are going to gain from the co-operative's success, and should bear a greater proportion of the risk of failure.
- The group is unlikely to achieve the full level of production which is needed to cover all costs and repay their loan until a few months have elapsed. They have ignored the delays which are inevitable at the start of any business venture. Income will be delayed, but expenses will start at once.
- The group has not offered any security which the bank can have if they fail to repay.
- The Ministry is most unlikely to pay its bills as forecast. This will lead to a bigger cash deficit than forecast.
- The group should be encouraged to work on a smaller scale at the beginning, with their own capital, to demonstrate their ability.
- The group displayed a complete lack of understanding of financial management when they did not realise that their money would run out so soon. They should learn to manage their own funds before being lent any more.

Ask any participants who are unquestioningly in favour of lending the money whether they would lend their own money to the carpenters. Stress that a bank's money belongs to its depositors, and Government money belongs to the citizens; neither should be wasted.

4) After discussion, elicit if possible some consensus from the group and then ask participants to suggest what other information they might actually request before making such a decision. "Test" each

suggestion by asking the participant who puts it forward, or others, the following questions.

- What difference will the answer actually make to the decision?  
If none, do not ask for it.
- Is the information actually possible to obtain? For example, nobody can actually state what future sales will be, they can only make an informed guess.
- Is it feasible for the members themselves to obtain the information, and, if not, how can they obtain it?

5) Stress that many requests for information, by co-operative advisers as well as by bankers, are often no more than an excuse for delaying a decision. It is useful to ask members to get relevant and obtainable information, both because it is needed and the task of getting it tests the commitment and develops the management ability of the group. All requests should be "tested" as suggested before being made to prospective or actual co-operators.

Participants' suggestions will depend on the local feasibility of obtaining information and the ability of groups with which they are familiar. Reasonable requests might include:

- The group should have some idea about what other customers they believe they will sell to, by when, and how much.
- The group should be willing and, in fact, eager to show the bank manager their workshop so that he can see the tools and products himself.
- The group may be asked if they themselves, or any friends or relatives, are willing to guarantee repayment. Such guarantees need not be taken up, but are an indicator of commitment.
- The group should open a bank account, deciding on who will be authorised to sign cheques. This is not only necessary in itself, but will also force them to face the issue of leadership.
- Would the group be willing to allow the bank to exercise some control by countersigning cheques, for instance?

6) Remind participants that bank loans are not the only or even the most attractive source of finance, nor necessarily the most useful. Ask what the disadvantages of bank loans are, from the borrower's point of view; elicit the following.

- Bank loans have to be paid for, with interest.
- Bank loans have to be repaid, usually at a specified date which may not be convenient for the borrower.
- Banks may impose conditions on the management of enterprises to which they lend money.
- Banks may demand security which will be forfeit if the loan cannot be repaid.
- Bank procedures and controls can be slow and inefficient.

7) Allow participants up to ten minutes to write down all the possible sources of finance for a workers' co-operative such as the Alpha Carpenters', at the start and later.

Elicit the following at least.

- Members' own share subscriptions and deposits.
- Fund raising events.
- Grants such as they have already received.
- Hire purchase, which enables them to have the use of machines without paying cash for them.
- Subcontract work, such as the on-site joinery, which earns immediate cash without needing any working capital.
- Credit from suppliers.
- Advance deposits from customers.
- Reinvested surplus (although this is not available at the beginning).
- Some part of members' wages, which they can add to loan capital.
- Proceeds from sales of stocks, or collection of customers' outstanding bills, which may have been allowed to get higher than necessary.

Stress in particular the need for a co-operative to examine the ways it is using the capital it already has. Many societies think that they have automatically to look outside for capital, but there are very few organisations of any type which are using the money they already have in the most economical way.

- 8) Ask participants to assume that the carpenters provided the bank manager with the information he asked for; he then decided that he would offer them a loan of \$2000, rather than \$3000, giving the following reasons:

- The co-operative should start on a more modest scale than planned.
- The bank should not bear more than half the total risk.

The forthcoming case study will give them an opportunity to examine other ways in which the carpenters might raise the money they need.

- 9) Distribute the case study. Divide participants into groups and allow them up to 45 minutes to come to a conclusion. Ensure that they have all the material from the previous sessions since they will need this to obtain necessary data.
- 10) Reconvene participants, and ask groups in turn to state which offer, if any, they recommend that the carpenters should accept. Ensure, as in previous cases, that they make a decision; management has been defined as "the art of making decisions without sufficient information".

Ensure that all participants understand that a customer who pays a month earlier than otherwise is in fact doing the same thing as making a loan. It is a use of his capital, and thus a source for the supplier.

After finding out which proposal each group supports, ask them for their reasons. Participants may concentrate on qualitative factors, but stress that money, like any other resource, has to be bought for a price. Before considering the "intangibles" they must calculate the cost of each option.

11) Elicit the following figures for the four alternatives:

A: Advance payment by the builder.

Amount to be obtained.....\$1000

Cost: \$100 reduction per set, at 10 sets per month =  
\$100 per month or \$1200 per year.

Effective annual interest rate .....120%

B: Early payment by the Ministry.

Amount to be obtained.....\$1500

Cost: \$50 per month, \$600 per year.

Effective annual interest rate.....40%

C: Private Banker.

Amount to be obtained.....\$1000

Cost: 5% on \$1000 monthly, \$600 per year.

Effective annual interest rate.....60%

D: Timber suppliers.

Amount to be obtained.....\$1000

Cost: 7% on \$1000 per month =  $12 \times \$70 = \$840$  per year.

Effective annual interest rate.....84%

12) Participants may not appreciate that a customer paying a month earlier than otherwise, or a supplier allowing the carpenters to pay a month later, is in fact the same as a loan of the amount in question.

Refer back to the cash flow schedule in Session 7; ask participants to calculate the effects of one or more of the proposals on the bottom figure, that is the balance of cash in the co-operative.

Demonstrate that although the customer pays one month earlier every month, this only amounts to a "loan" of one payment's worth, while the cost has to be paid every month. This is why advanced

customer payments, or supplier credit, are such expensive sources of funds if they involve price changes.

Ensure that they realise that all the proposals, and not only item C, the private bank loan proposed by Ismael, are in fact loans, in that the carpenters will have the use of money which they would not otherwise have had at their disposal.

- 13) Ask participants which option they would prefer, after having seen the interest rates.

Clearly A and D are very expensive ways of borrowing money. Ask participants to recall examples of purchasers of farm produce, or suppliers of farm inputs, who do business with farmers mainly because they pay at once for produce, or give long credit for supplies. They are in effect "selling" money; how do the farmers pay for it?

- The supplies are of poorer quality than those which must be paid for in cash.
- The prices are higher.
- Certain amounts are deducted from the supplies, or added to what is bought from the farmers, by inaccurate weights or normal custom, which is in effect interest payment.
- This type of "loan" is usually very expensive, like the apparently generous offers from the builder and the Timber Supply Co-operative.

- 14) Ask participants which they prefer from proposals B and C. Stress that this is a good example of how quantitative and qualitative factors should be taken into account in management decisions; first they should calculate the costs and benefits, and then make a decision based on this information and on the "intangible" factors.

Elicit the following arguments relating to each of the two remaining proposals:

B: -Bribery introduces dishonest dealings into the co-operative, leading to mutual mistrust.

-Bribery is immoral and should be discouraged.

C: -The loan can be repaid whenever funds become available, thus reducing interest charges.

-The loan can be increased if necessary.

-The cost of the loan is clearly specified.

-The loan is not tied to any particular customer or supplier.

Participants may object to dealing with a private banker or money-lender whose interest charges are five times the bank's rates. Stress that money-lenders provide a service to large numbers of people; their interest rates are usually adapted to their risks.

- 15) Remind participants of the large numbers of different sources of funds that have been dealt with in this session. Members of workers' co-operatives, and their advisers, often think that the only way to get capital is to ask the bank.

A bank loan should only be considered after:

- the use of the money already in the society has been shown to be as economic as possible;
- supplier credit and customer deposits have been investigated and costed;
- members' own resources have been fully utilised;
- future surplus has been estimated and reinvestment planned (a successful co-operative can often earn the extra money it needs from its own surplus in a shorter time than it takes to get a bank to approve and disburse a loan).

In the next session, participants will have the opportunity to see how effective presentation of financial data can help members manage their money properly and reduce the necessity of relying on outside resources.

Where to Get the Money from?

The members of the Alpha Carpenters' Co-operative were disappointed when the bank manager only offered to lend them \$2000 and not the \$3000 they had asked for, but their adviser pointed out that many such requests were refused outright; they were lucky to have been offered anything.

They knew that the bank manager felt that they should start on a smaller scale, but they decided he was wrong. They had commitments to the builder and to the Ministry of Education, and if they did not try to deliver the goods they would reduce their chances of getting orders from the same customers, and indeed others who would hear of their failure.

The members decided, therefore, to try to get the additional \$1000 from somewhere else. Their families and friends had done all they could to help them raise the initial \$500, so there was nothing more to be expected from that source.

All the members agreed to try to find a way of getting the necessary funds. They met two days later, and Eli asked if anyone had come up with any useful ideas. He had one idea, he said, and John, Abdullah and Ismael each presented one suggestion as well. Eli made brief notes, and summarised the possibilities as follows.

A. John, offer from builder customer.

The builder, who has already helped the group, has offered to make an advance deposit of \$1000 at once, and to leave the money with us as long as he is buying from us. In return, we are to reduce the price we charge for his furniture from \$140 to \$130.

B. Abdullah, contact in Ministry office.

A cousin of Abdullah works in the Ministry payment office in the capital. If we pay him \$50 a month, he will ensure that our cheques are sent one month earlier, that is at the beginning of the month following their receipt of the goods.

C. Ismael, money-lender contact.

A private banker known to Ismael is willing to lend the group \$1000 at a 5% monthly rate of interest, the interest to be paid monthly.

D. Eli, Timber Supply Co-operative.

The Timber Co-operative recognises our problems, having been in the same situation themselves a few years ago. They are willing to allow us one month's credit on the \$1000 worth of wood we buy for the builder's furniture. In return, they ask that we should accept a price increase of 7% on this wood.

Each member supported the proposal he had put forward, and they could not agree. They decided, therefore, that Eli should go to their adviser and ask what he recommended.

Assignment:

Decide which of the four alternatives, if any, you will recommend to the carpenters, and why.

Session

**9**

# The Management of Money

SESSION 9THE MANAGEMENT OF MONEY

Objective: To enable participants to prepare and make effective use of statements of the financial condition and operations of workers' co-operatives.

Time: 2 - 3 hours.

Material: Case studies "The First Month" and "Where Has the Money Gone?"

Session Guide:

- 1) Ensure that all participants have copies of all the previous case studies and other material. Explain that one of the purposes of this session is to enable them to put together a statement of the condition and operations of a workers' co-operative from a number of different and disorganised sources. The material from the earlier sessions will be part of the "raw material" for the case study.
- 2) Distribute copies of the case study "The First Month" to each participant, and allow them up to 30 minutes, individually, to complete the assignment. It may be that some participants have no idea of the balance sheet or profit and loss account, or that they are only accustomed to formal audited presentations, which members, and even advisers, rarely understand, and which are almost always so out of date that they are useless for everyday management purposes.

Stress that it is vital that a co-operative adviser should be able to ask the right questions and rapidly assess the financial performance and current position of a co-operative. This session simulates the process whereby an adviser can obtain information and put it together in such a way as to advise members on how to cope with financial problems and how to construct and use figures for themselves thereafter.

- 3) Ask a participant, preferably one with little knowledge of accounting, to attempt to answer the assignment. Depending on the knowledge of the group, introduce the concept of uses and sources, or possessions and amounts owing, as opposed to the technical but misleading terminology of assets and liabilities, debtors and creditors and so on.

Use the analogy of a still picture and a moving film to demonstrate the distinction between the balance sheet and the profit/loss account.

Elicit the profit and loss statement as follows:

Profit/Loss Account, Alpha Carpenters' Co-operative

January 1987

Sales		\$2900
Costs: Materials	\$1900	
Wages	500	
Rent	100	
Hire purchase	100	
Electricity	100	
Interest	80	
Total Costs		<u>2780</u>
Surplus		\$ 120

Do not tell this to participants, but elicit the figures, if necessary by asking "How much did the carpenters spend on.....?" for each item. Some participants may be confused by the fact that the carpenters in January paid \$200 for rent, \$100 for the first month and \$100 for the second, in advance, but this is not shown in the statement. Stress that the profit and loss account describes the income and expenditure which relates to a period, regardless of when the money was actually paid out or received.

Reinforce this point by referring to the sales figures. Clearly, although the customers have not yet paid all they owe, the sales were made in the first month, and must be set in total against the costs for that month.

- 4) Elicit the statement of condition, or balance sheet, as follows: here again avoid jargon, and ensure that all participants actually

understand what the figures mean. Those who have accounting training are particularly likely to know the procedures and terms, without knowing what they mean.

Balance Sheet, Alpha Carpenters' Co-operative, 31/1/87

ASSETS		LIABILITIES	
(How the money is used)		(Where the money came from)	
Cash	\$ 400	Members' investment	\$ 500
Stocks	1000	Grant	500
Owed by customers	2620	Bank loan	2000
Rent paid in advance	100	Money-lender loan	1000
		Surplus re-invested	120
<hr/>		<hr/>	
Total	\$4120		\$4120

- 5) As before, ensure that all participants understand the meaning of a simple balance sheet of this sort, and appreciate from this example how an approximate statement of this kind can be put together very quickly by asking the right questions and using the figures in the right way.

Participants may have difficulties with concepts such as:

- Surplus being a liability, rather than a possession. The terms "sources" and "uses" should make this easier to understand.
  - The idea that debts owed by customers are a use of money. Demonstrate that giving credit is the same as lending money; clearly making a loan is using money.
  - The fact that rent paid in advance is a use; stress that the right to occupy the building for a month to come is a form of investment, which belongs to the co-operative. The payment for the month just passed is not in the assets since it has been consumed, like labour or any other service.
- 6) Distribute copies of case study "Where Has the Money Gone?" and allow participants, on their own as before, up to 45 minutes to complete the assignment. Here again, it is vital to work individually, since every co-operative adviser must understand how to make

this type of analysis, and participants in groups can avoid admitting that they do not grasp what is involved.

Before asking for an answer, ask participants carefully to suggest what is their objective. Stress that they should remember that their task as advisers is not to find out the answers for themselves. They must help members to develop and use figures for their own purposes, so that they can manage without their adviser. The answer to this assignment must be expressed in a way that someone such as Abdullah can understand.

- 7) Elicit the statement of position as follows:

Balance Sheet, Alpha Carpenters' Co-operative 28/2/87

ASSETS		LIABILITIES	
(How the money is used)		(Where the money came from)	
Stocks	\$1100	Members' investment	\$ 500
Owed by customers	2900	Grant	500
Advance rent	100	Bank loan	2000
Cash	150	Money-lender loan	1000
		Re-invested surplus	240
Total	\$4250		\$4240

- 8) Ask participants to explain the fact that the "balance sheet" does not balance. Clearly one of the figures on one side or the other must be wrong, since a balance sheet is no more than a statement of two different things, namely the uses and sources, about the same sum of money.

Check each figure in turn; the total of sources must be correct, since the surplus of \$120 per month must be added to the outside loans and members' investment.

The amounts owed by customers, and the value of stocks should be carefully checked. If these are correct, the cash is wrong. It should be \$140 and is \$10 too much. How can this have arisen?

- A member may have left \$10 of his own money in the co-operative's cash by mistake.

- A supplier may have been underpaid.
- A customer may have overpaid.
- The error may have arisen through a combination of other small errors.

If the error cannot be corrected, the money should be considered as surplus.

Ask participants how such mistakes can be avoided. Stress that cash books and simple records of stocks, amounts owed by customers ("debtors") and owed to suppliers ("creditors") are vital to avoid disputes within a co-operative and between the society and its customers and suppliers.

They are not dealt with in this course, but an adviser must be totally familiar with these simple recording procedures, and be able to explain to members of workers' co-operatives why they are useful, how to keep them and how to use them.

- 9) Ask participants for their answers to the latter parts of the assignment.

Clearly the amount of money is insufficient for any significant payment to each member, and the co-operative is still far too fragile and dependent on prompt payment by customers even to consider any distribution of surplus. Reinforce this by asking participants to estimate what would have happened if the Ministry had not paid earlier than expected. The co-operative would have run out of materials again, and would have been forced to cease operations or to borrow money yet again from a costly source such as the money-lender or others mentioned in the earlier session.

- 10) The cash sum of \$150 should be kept in order to build towards a cash reserve which can eventually tide the co-operative over problems such as customers' delayed payments.

Ask participants whether a co-operative should continue accumulating cash indefinitely; can they have too much cash?

- Even small amounts should be kept in the bank if possible.
- Cash should be invested to earn interest, and should not stay idle in a cash box or a non-interest bearing account.

Participants may suggest that some of the money should be used to repay a part of the money-lender's loan, to reduce interest charges. This may be correct, so long as the members can be sure that they can borrow it back, at the same or a lower rate, at very short notice. The fact that a lender of this sort may be able to work in this way demonstrates yet again the need to develop a variety of flexible sources of finance. Few banks can operate in that way, unless the co-operative can obtain overdraft facilities.

- 11) If necessary, ensure that all participants understand the simple balance sheet presentation by asking those who appear uncertain to say how the statement will be amended if further transactions take place, such as:

- The builder pays his outstanding account.
- The members pay the money-lender \$50 to reduce their debt.
- The members buy another \$100 worth of material for cash.

Make simple amendments on the chalkboard/ohp, and ensure that all participants understand how a balance sheet can present a dynamic picture of the financial condition of an enterprise, and can be used to plan the way money can be obtained and used.

Ask participants to describe how co-operative members, and they themselves, regard accounts.

- Are they an irritating task, to be completed only to satisfy outside authorities?
- Are they a valuable management tool, whose preparation and use are a valuable aid to diagnosis, planning and decisions?

They are more often the former. Stress that members should be taught to prepare and use accounts for their own benefit, and that nobody will bother to prepare something properly if he does not know what it is for.

The First Month

It was January 31st, and the members of Alpha Carpenters' Co-operative had completed their first month in business. They felt that they had done quite well.

They had constructed the sixty sets of desks and chairs for the Ministry as agreed, and the ten sets of home-furniture for the builder, and they had carefully controlled their use of material. As a result, they were pleased to see that they had only used the same amount of materials for these orders that they had calculated, no more and no less.

Both customers were pleased with the quality, and had asked for the same deliveries the next and following months. The builder had helped them out in their early cash crisis, by paying \$280 for two sets of furniture earlier than agreed, but he still owed for the remaining eight sets. The Ministry, as the members had been warned to expect, was unlikely to pay for another month.

Some of the members wondered where the \$500 they had all invested and the \$500 grant had gone, but they recalled that they had paid for all their materials. When the Ministry settled its bills, they thought, they would have plenty of money.

Thanks to the \$2000 they had borrowed from the bank, and the \$1000 from the money-lender, they still had \$400 in cash. It had been irritating to have to pay \$20 interest to the bank at the end of the month, and far worse to pay \$60, again in cash, to the money-lender for half the amount of money lent, but at least they were still operating, and had money left over. It was good to know that this loan had enabled them to buy more raw material, so that they still had \$1000 worth in stock.

Each member had received \$50 for the month, in cash, as they had agreed. They had also paid \$100 in hire purchase charges, \$100 for the first month's rent and a further \$100 in advance for the second month. Electricity and other expenses had come to another \$100, in cash, but all in all they thought the month had shown them that their new business could survive.

Assignment:

How much profit or loss did the carpenters make in the first month?

Produce a statement of their financial condition at the end of the month, showing how the co-operative is using its money and where they got the money from.

Where Has the Money Gone?

"Only \$150 in the box: what nonsense, there must be some money, we borrowed \$1000 from that crooked money-lender, they said we made a surplus of \$120 each month, we can't have spent that much, maybe it has disappeared somewhere else, I wonder where...."

Abdullah had never really forgiven the rest of the group for turning down his offer to use his cousin in the Ministry of Education in order to get faster payment, and he always asked awkward questions when he could. This time he thought he really had found something to blame the others for.

Two months had gone by since the start of the business. At the end of January Abdullah had hoped for some extra cash, since he had worked so hard for only fifty dollars all month, and there was, after all, \$400 in the cash box. The others had refused, however, saying that it was borrowed money and had to be repaid. So far as he could see, money is money, but he was overruled.

When the money had come in from the Ministry and from the builder, the group had agreed to spend \$2000 on more raw material, to avoid running out again. Abdullah had complained at the time, and now he knew he had been right, because they still had \$1100 worth, some untouched and some in the form of partly-finished furniture.

Now, at the end of February, surely it was time for some reward for all they had done. As in the first month, they had made and delivered \$1500 worth of school furniture and \$1400 worth of home furniture for the builder. The materials had yet again cost exactly what they had estimated.

All the other expenses had been as before, the rent had been paid a month in advance, and, what was most pleasing, the Ministry of Education had, to everyone's surprise, paid for their first month's supply. The co-operative adviser had said he would try to persuade them to do this, but nobody, least of all himself, expected him to succeed.

The builder had also paid for the other eight sets of furniture he had taken during the first month, and it was very clear to Abdullah that there should be a great deal of money in the cash box. He wanted to help his family with the expenses of his sister's wedding. Since he now had a job, he was expected to make some contribution to family events, and he demanded that he should have a bonus of at least \$50.

When the others pointed out that there was only \$150 in the cash box, Abdullah was furious. He knew that the co-operative had made a surplus of \$120 in the first month, and he assumed they had done the same the second month since they had made and sold the same articles, for the same price and using the same materials. It was obvious that there should be at least \$240 in the cash box, two months' surplus that is, and Abdullah was sure that someone had stolen the money.

He threatened to complain to the police, to resign and take away his investment, to sell some of the stocks of timber and keep the money, or even to burn the place down. "Prove to me", he said, "that nobody has been stealing, otherwise I shall destroy this co-operative in whatever way I can".

Assignment:

Advise the members on how to find out whether the cash balance is correct.

Should the members pay themselves any more money?

If so, how much, and if not, what should they do with the spare cash?



# Organisation and Decisions

SESSION 10ORGANISATION AND DECISIONS

Objective: To enable participants to make members of workers' co-operatives aware of the need to set up appropriate and effective procedures for making decisions.

Time: 2 - 3 hours.

Material: Case study "The Problems of Success".

Session Guide:

- 1) Distribute copies of the case study to each participant. Ask them to read the first part, up to the assignment A, and then to complete this. Allow them up to fifteen minutes for this.

Stress that this is a simple revision of what they have learned before, but is vital for any useful advisory function. All advice must be based on knowledge of what is actually happening in the co-operative; an adviser must know which questions to ask and the members must learn which information is needed, to establish the financial condition of their co-operative.

- 2) Ask a participant who had difficulty in the earlier session to present his or her figures for the profit and loss account. Elicit the following, stressing that the presentation and lay-out are not important and what matters is that the members themselves can understand the calculations.

Profit/Loss Account, Alpha Carpenters' Co-operative

6 months ending 30/6/87

Sales	\$19800	
Unexplained amount found	<u>10</u>	
Total income		\$19810
Materials	\$12600	
Wages	3000	
Rent	600	
Hire purchase	600	
Electricity etc.	600	
Interest	<u>480</u>	
Total costs		<u>\$17880</u>
Surplus		\$ 1930

Check that all participants understand the origin of each figure, discussing in particular:

- The figure for materials is made up of 3 items:

6 months materials for school-desks/chairs at \$ 900	\$ 5400
6 months materials for home-furniture at \$1000	\$ 6000
Materials for private order, 50% of \$2400	<u>\$ 1200</u>
	\$12600

- The treatment of the unexplained \$10. Stress that it is important to ensure that every sum of money is properly accounted for. This can be treated as income, given away as a donation, or spent in some other way. The decision must be made quickly to avoid wasting time on small amounts.
- Some participants will have made simple mathematical errors. Stress that incorrect primary school mathematics leads to more accounting errors than ignorance of techniques.
- The \$100 worth of material bought with the customers' deposit has not been used, it is still in stock. This is therefore in the balance sheet, and not in the profit/loss account.

- 3) Ask another participant, again one who was unsure in the previous session, to present the balance sheet; elicit the following.

Balance Sheet, Alpha Carpenters' Co-operative 30/6/87

ASSETS (How the money is used)		LIABILITIES (Where the money came from)	
Cash	\$ 430	Customer deposit	\$ 100
Owed by customer	4400	Members' investment	500
Rent in advance	100	Grant	500
Stocks	1100	Bank and lender loans	3000
		Surplus	<u>1930</u>
Total	\$6030		\$6030

- 4) Participants may point out that the stocks would in fact include work in progress and finished products. Stress that in the interest of simplicity, stocks are treated all together. In a more complex business, this separation would be necessary.

Ensure that all participants understand why there is still so little cash, although none of the loans have been repaid, the members have earned no more wages and the co-operative has made a large surplus.

- The amounts owing by the Ministry are no more than expected, but are absorbing all the cash that is coming in.
- 5) Divide participants into groups, and allow them up to forty-five minutes to read the second part of the case study and do the assignment. Remind them that their analysis of the organisational problems must be based on an understanding of the financial realities.
- 6) Reconvene participants and ask a representative of one group to present his or her suggestions. Summarise these on the chalkboard/ohp and ask the remaining groups to present their own ideas if they are radically different, and to comment on what has been put forward so far.

Participants will probably concentrate on the detailed issues which are involved in the disagreements.

- Should John have a \$20 allowance? (It is possible to be smart and clean in simple working clothing, and most customers prefer to deal with someone who is clearly a craftsman and not just a salesman.)

- How much bonus, if any, should members receive? (It is not normal to pay a dividend or bonus until the end of the year.)
- Should Eli have the right to silence the other members? (Democracy does not mean chaos, a chairman can be democratic.)
- Should they have bought the machine? (One of the most serious weaknesses of co-operatives is their inability to make fast decisions; a rapid decision was clearly necessary.)
- Should Chuck's brother be accepted as a new member? (A workers' co-operative should not admit members for whom there is no work.)

Do not allow participants to spend too much time on these issues. Attempt to elicit a deeper understanding of what is actually happening in the co-operative, and what the adviser should do by asking questions such as:

- Why have these disagreements occurred?
  - Should the adviser tell the members what to do?
  - How can disagreements of this sort be avoided in future?
- 7) Lead participants to the conclusion that the individual problems are a symptom of a lack of rules, or procedures. Stress that rules and procedures may be unnecessary at the beginning of a co-operative, and may even frustrate the initiative. After a certain stage, however, it is necessary for the group to formalise the decision making process, and to reach agreement on issues such as:
- What types of decisions will be made by whom, and what sort of majority will be needed for each type, when a meeting is involved?
  - How often will meetings be held?
  - How will the holder of the chair at meetings be appointed?
  - Who will be eligible for membership, and how will new members be recruited and accepted?

Ensure that all participants are aware of how meetings should be conducted, and of the local by-laws which are relevant to the issues in this case study.

- 8) In many countries these types of decisions are laid down by law, but not every group will wish to be registered under the co-operative law, and members should understand why the regulations are as they are if they are to be willing to obey them.

Elicit suggestions, like the following, as to how the above or other critical questions should be answered.

- Major issues of the constitution should be settled in a full general meeting, by majority vote.
- The carpenters must elect a committee to make decisions on regular management issues.
- Spending decisions up to a certain amount, possibly \$100 in this case, can be made by the manager, who is appointed by the members attending the meeting.
- Dividend or bonus decisions should be made annually, by the members all together, on a majority basis.
- Meetings should be chaired for a year by the chairman, who is appointed by the full meeting.
- New members should be proposed and seconded by two members, and accepted at full meetings, by majority vote.
- The co-operative may have to recruit more members to attain the local legal minimum. They should not do this unless there is enough work, merely in order to retain their legal status.

Opinions, and regulations, may differ on these and other points. The answers are less important than the appreciation that such questions must be answered, in order to avoid disagreements such as those in the case study, and far more serious ones which can destroy a society.

Some participants may be familiar with far larger co-operatives, and with complex regulations governing different classes of membership and other points. Stress that every workers' co-operative has to start small, and complicated regulations are unnecessary and can distract members, and their advisers, from the important task of establishing a viable enterprise.

- 9) Ask the groups how they will put over their suggestions to the carpenters. Elicit the response that the adviser should be less concerned with the conclusions that the carpenters reach than that they realise that they have to make decisions on these issues.

The adviser should help the members to understand the reasons for their disagreements, and the need for decisions on these procedural issues.

He should then outline the possibilities; members should appreciate that these issues are constitutional ones, and should be decided by all the members, probably by simple majority vote, possibly by two-thirds majority.

- 10) Ask participants if they think that the adviser has failed by allowing the co-operative to go on for six months without determining these issues.

Elicit the suggestion that learning of this sort, like most understanding, arises best when people are faced with problems because they have not made the necessary decisions. It will probably not be clear to members why they should bind themselves by procedures at an earlier stage. If the adviser is in touch, but is in no way trying to run the co-operative, he will be able to judge when the time has come to help them determine their own rules and procedures.

Stress that advisers must at all times avoid the temptation of imposing decisions or procedures on members. Even if certain structures are necessary in order to be eligible for certain types of assistance, for instance, the adviser's task is only to explain why this is so, and then allow the members to make their own decisions.

Rare situations may arise when an outsider has to try to impose his advice on a society.

The Problems of SuccessPart A: The figures

Now it was June 30th. The Carpenters' Co-operative had worked for four more months as during each of the first two months, making and delivering 60 sets of desks and chairs for the Ministry of Education, and 10 sets of home-furniture for a local builder.

In addition, they had sold a total of \$2400 worth of furniture and other work to a number of private customers. This type of sale was increasing slowly but surely it was good for the carpenters because they were on average able to sell individual jobs of this sort for twice the cost of the materials they used. They had at first been very surprised when a customer suggested a price at this level, but thereafter they quoted double the material costs, and nearly always got the business.

In addition, and perhaps even more important, these customers always paid cash, and they even paid a deposit to enable the carpenters to buy their materials. The members had to work rather longer hours on these jobs, but most of them felt that this was good for the co-operative in its early months. They were able to complete the routine Ministry and builder jobs rather more quickly now, after so much practice, so that this meant there was some spare time for the new jobs.

At the end of June the carpenters had received \$100 as a deposit, with which they had bought materials for the customer whose job was not yet completed. They also had another \$1000 worth of stocks of other materials. The Ministry owed them for two months' supplies, at \$1500 a month, while the builder owed for one months' supply of ten sets of furniture, sold for \$140 each. As usual, they had paid the rent of \$100 a month in advance, and they had \$430 in the cash box.

Assignment A:

Prepare a profit and loss account for the first six months of the Carpenters' Co-operative operations, and a balance sheet for the end of June.

The Problems of SuccessPart B: The problems

The members prepared their accounts for the first six months, and then they had a meeting to consider them, and to decide where they had made mistakes and what they should do in the second half of the year. They asked their adviser to come to the meeting, partly because they valued his advice, and partly because they were so proud of what they had achieved. He had not been in very close contact with them recently, apart from helping them with the accounts, but was naturally very pleased to be asked.

They all felt that things were going quite well, and that the time had come to look critically at what they were doing, and what they were getting for it. They were all better off than before, but success made them want more still.

John made the first suggestion. He had been very successful in keeping the goodwill of the Ministry and the builder, and in helping to attract the new individual buyers, and in the course of his work he had met a number of sales people from various companies. He had been rather ashamed of his old clothes, and when he happened to mention that he was earning only \$50 a month, a salesman burst out laughing.

"Our cleaners get more than that", he had said, and John had felt completely foolish. His lack of confidence was the reason, he was sure, why he had not succeeded in finding any more new customers since the incident.

John said that he knew they were all equal, but he did have to show that the Alpha Carpenters' was a serious organisation. He asked for a special responsibility allowance of \$20 a month. He was sure, he said, that he would spend it all on better clothes and dry-cleaning.

Most of the other members were very opposed to the idea. They said they had no quarrel with John, and admired his success, but they felt that equality was the key to their future. Once certain staff members started to earn more than others, they would be no different from any ordinary capitalist company.

Eli was chairing the meeting, and since there was no agreement on this issue, he suggested they hold it over till the next meeting. He tried to defuse the rather tense atmosphere by bringing up the subject of dividend. They had \$430 in cash, he said. They had worked hard for it, and how much did they think they should each take out as a bonus at this stage? He suggested \$13 each, or \$130 in all, and asked for reactions.

To Eli's disappointment, an angry argument at once broke out. Some members, led by Abdullah, demanded \$40 at least, since they had worked so hard. Others said they should get more than the rest because they had worked particularly hard on the new private clients' jobs, while Hira said they should not take anything out. After all, he said, they had been earning nothing when they started, and now the business had only been going for six months. Should they not repay the money-lender's loan, as a matter of urgency, and then the bank, before even thinking about taking anything for themselves?

Eli tried in vain to bring the meeting to order. Some members even complained when he tried, saying that he had no more right than anyone else to tell them to be quiet; they were, after all, a truly democratic organisation.

At this point, David interrupted the arguments. "Let us stop arguing about what we ought to do with our money now", he said. "I want to find out why we did not buy that lathe that was for sale at the garage last month. It only cost \$100, it was worth at least \$400, and it was exactly what we needed to be able to make bed posts and table legs more quickly, in order to be able to do more individual clients' work. It was snapped up by a dealer from the city only two days after it was put up for sale, but I did tell Eli about it. Why did we miss such a chance?"

Eli explained that he had indeed wanted to buy the machine, but, as they remembered, there had been a national holiday the day the machine was put up for sale, and by the time they had all been together at work again, the machine had been sold. How could he possibly have bought it without having a proper discussion with all the members first, just as they had now?

Everybody agreed, although it seemed a pity to have lost such an opportunity. They were about to go back to arguing about the bonus, when there was a knock on the door. Chuck got up and opened it and his brother Michael came in. The others knew him a little and Chuck had sometimes talked about his work on building sites. They were all quite astonished, however, when Chuck proudly said, "I should like to introduce our eleventh member, my brother Michael. He has finally agreed to stop working for the contractors, and to work with us instead."

There was an awkward silence; finally Eli suggested that it was time to go to lunch, and the carpenters hurried away to their homes, uncertain of what to do next. Two or three of them walked along with the adviser, who had said nothing throughout the meeting. They asked him to come back after lunch, and to advise them what to do about the various disagreements that had come up.

Assignment B:

If you were the adviser, what would you advise the carpenters, and how would you put it across to them at the afternoon meeting?



# Diagnosis and Remedies

SESSION 11

DIAGNOSIS AND REMEDIES

Objective: To enable participants to assess the condition of a moribund workers' co-operative, to identify reasons for failure and to recommend and advise on appropriate remedies when possible.

Time: 3 hours.

Material: Case study "Decay and Revival".  
Role play Brief.

Session Guide:

- 1) Ensure that participants have all the papers from previous sessions, including in particular the balance sheet and other figures which were calculated by all participants in Session 10.

Distribute copies of the case study in advance if possible. Allow up to half an hour for completing the first part of the assignment. Remind participants that this provides yet another opportunity for them to develop and practise their ability to obtain and use information from co-operative societies, even those with no formal accounts or other records.

- 2) Ask a participant to list the "assets" of the co-operative, that is, the ways in which their money is being used. As before, choose a participant who is less familiar with accounting techniques and has had more difficulty with the foregoing material than most.

If necessary, go through a list of possible assets, asking the participant to state whether or not the carpenters from the case study appear to have any of them, and, if they do, to state how much it is worth.

- 3) Ask another participant to state the sources of the money that has been found to be in the possession of the Carpenters' Co-operative, using the same technique to ensure that no items are missed.

The final list, or "balance sheet", should read as follows:

Balance Sheet, Alpha Carpenters' Co-operative, 31/12/87

ASSETS		LIABILITIES	
(How the money is used)		(Where the money came from)	
Cash	Nil	Customer deposits	\$ 300
Owed by Ministry	\$3000	Owed to landlord	200
Rent in advance	Nil	Owed for hire purchase	200
Stocks of desks etc.	300	Members' investment	500
Stocks of materials	300	Grant	500
	———	Money-lender loan	Nil
Total	\$3600	Bank loan	2000
		LESS Surplus (loss)	(100)
			———
		Total	3600

4) Participants may find difficulty with a number of these items. Stress that all the information necessary to obtain this "balance sheet" is in the case study. Particular problems may include:

- The material stocks; the \$300 worth of materials which belong to private customers is still listed as a use of the co-operative's money, because the deposits themselves are included as a source of money, showing that the carpenters owe this amount to the customers. If the customers had merely given the material to the carpenters, as many people do when they pay tailors to make clothes for them, it would not have been listed as a source or a use, because it would not have been the property of the co-operative.
- The amounts of rent and hire purchase which are overdue are listed as sources of money; show participants that if an organisation or individual owes someone some money, it is the same as having a loan from that person.
- The calculation of the reinvested surplus figure, or, in this case, the loss; show by appropriate questions that this is a "balancing" figure. After adding up all the uses of money, and the identifiable sources, the difference must come from the surplus or loss.

If more money is being used than that which is known to come from identified sources, the co-operative itself must have generated the money.

If the total that is being used is less than that which is known to have come from the identified sources, the difference must have been "lost", either in operating losses or through theft or in other undiscovered ways.

Show by simple examples that this can be a useful way of finding out how well (or badly) an enterprise has been doing, if there are no accounts, or of checking the accuracy of accounts.

An interview and visual check can usually identify and roughly value what a co-operative owns. Those to whom it owes money and the investors will usually identify themselves and the amounts of money owed to them. The difference is the accumulated surplus or loss of the co-operative.

- 5) Ask a further participant to read out his or her answer to part two of the assignment. How is the co-operative presently operating? Stress that advisers, and others, often have to work with very approximate figures; no organisation ever has perfect figures. (Work in progress, for example, is always an estimate.) The lack of accurate figures does not necessarily mean that management is poor in every way, nor are neat and apparently up to date figures a guarantee that all is well.

Elicit figures as follows:

Estimated Profit/Loss Account, Alpha Carpenters' Co-operative

December 1987

Sales to private customers		\$1000
Materials	\$ 500	
Wages	300	
Rent	100	
Hire purchase	100	
Electricity etc.	50	
Interest to bank	20	
	<hr/>	
Total costs		\$1070
		<hr/>
Monthly loss		\$ 70

- 6) Write the six-month and twelve-month balance sheets beside each other as shown below, and ask participants to work out the differences in each case. It is important not to omit items which only occur in one statement, and whose value is nil in the other.

#### ASSETS

Item	Six months	Twelve months	Difference
	\$	\$	\$
Cash	430	Nil	Minus 430
Owed by customers	4400	3000	Minus 1400
Advance rent	100	Nil	Minus 100
Stocks	1100	600	Minus 500

#### LIABILITIES

	\$	\$	\$
Customer deposits	100	300	Plus 200
Members' inv.	500	500	No change
Grant	500	500	No change
Money-lender loan	1000	Nil	Minus 1000
Bank loan	2000	2000	No change
Surplus	1930	(100)	Minus 2030

- 7) Ask participants to look at the differences and to suggest what they indicate as to the operations and management of the Carpenters' Co-operative in the second half of the year. Stress that they should not only look at the figures, but must also use the additional information given in the case study.

Elicit the following:

- The amount owed by customers, and the value of stocks, have gone down by around one third, but sales have gone down by about two thirds.
- The co-operative appears to have enough "current assets" to cover its "current liabilities", but the money owed by the Ministry cannot be regarded as "current". When this is omitted, the co-operative is unable to cover its debts if the creditors demand their money as they are entitled to do.

- The co-operative has lost a total of \$2030 in the last six months. If they had been operating at the present loss of \$70 a month, the six months' loss would only have been \$420. The far higher figure suggests that a substantial but unknown sum has disappeared in some other way.

Point out that this comparison of balance sheets for two different periods is known as "a sources and applications of funds statement". The title is unimportant; this is a simple and very useful way of investigating what has happened in an enterprise over a period, particularly when no profit/loss statement is available.

- 8) Divide participants into three groups, each group representing the members, the adviser and the bank manager.

Write the following instructions on the chalkboard/ohp:

"The co-operative adviser has called a meeting to discuss the future of the Carpenters' Co-operative and has invited the bank manager who approved the co-operative's loan and one nominee of the members to attend. Decide in your group who will attend the meeting, and agree on what he will aim to achieve and how he will try to do this."

Give the group representing the banker copies of the banker's brief. The other two groups have more than enough information on which to base their discussions. Stress that they must decide what to do, and nominate a representative to play the role of the member, the bank manager and the adviser respectively.

- 9) Allow the groups up to 30 minutes to conclude their discussions.

Set the scene for a meeting between the three people, and invite them to play out the meeting in front of the remaining participants. The adviser should preside over the discussions as he or she thinks fit. Stress that they should aim to come to some firm conclusion as to what is to be done, and who is to do it, or at least a clear "agreement to disagree", and give clarification of their views and the points at issue between them.

Allow a maximum of 20 minutes for the meeting. Avoid interrupting the discussion, but if necessary remind them that they have to reach some sort of conclusion by the end of the meeting.

- 10) The aim of each "side", and the final outcome, will of course depend on participants' individual opinions and the procedures and practices to which they are accustomed. Possible "extreme" views of the banker and the members might be as follows.

Banker: - Demand repayment as soon as it falls due. When, as expected, the carpenters cannot repay, force the co-operative into liquidation and claim the amount owing from the Ministry to settle the outstanding loan and, if there is enough money, the debts for rent and hire purchase charges.

Members: - Request a further one-year moratorium on loan repayments to the bank.

- Request a further substantial loan for working capital to allow the co-operative to operate properly.
- Ask the adviser to recover the amount owed by the Ministry.
- Ask the adviser to negotiate a period of rent-free occupation of premises and use of the equipment.
- Ask the adviser to get them more furniture orders with advance payments for materials.
- Start legal proceedings against Eli.

- 11) The adviser should act as an intermediary, and attempt to safeguard the interests of both "sides".

A possible compromise:

- The adviser to help the members to negotiate a once and for all payment from the Ministry. Even if this is only \$2000, rather than \$3000 which is owed, the co-operative needs the money now, and negotiations over quality could go on for months or even years. In any case, the Ministry is not a good long-term customer for a co-operative which needs prompt payment above all.

- The members to carry out a sales campaign to get individual orders which are profitable and appear to be the major potential area of demand for the co-operative.
- The members to reduce the monthly wage payments to \$150 at once, since there appears to be work for three members rather than six at the moment. They may halve their wages, or three members might temporarily resign, or they can devise whatever solution is least painful to them.
- The members to examine the premises and the equipment very critically. The co-operative could operate on a smaller scale for some time. If any machines can be returned, and if cheaper premises can be obtained, this should be done.
- The outstanding debts for rent and hire purchase should be repaid as soon as any money is received.
- When negotiations with the Ministry have been completed, the members should negotiate a rescheduling of the loan with the bank manager, based on maximum possible repayments, and using as much of the Ministry payment as is needed to satisfy the bank manager.
- The members to decide who is to lead them, and to make clear decisions on any procedures which remain unclarified since the meeting six months ago, and change any rules which appear not to have been appropriate.
- The four members who have left should be informed of the position and asked to indicate whether they wish to rejoin. If they do not respond by a given deadline, they should be expelled from the co-operative. It should be made clear to them that there is no immediate work for them, but they should be invited to join in the effort to get more orders if they are willing to demonstrate their commitment. If they have found other employment, there should be no effort made to encourage them to leave and return to the co-operative.
- If there are reasonable prospects of new work, new members can be recruited to bring the membership up to a viable number and to contribute their investment to the co-operative's funds.
- If there is any good evidence that Eli really did steal the co-operative's money, this should be summarised with the help of the adviser and given to the police. The members should not

waste any time or money on what will probably be a fruitless quest to recover the money. They should rather regard it as an expensive lesson in the need to keep records.

The adviser should also take the opportunity to recommend:

- Simple membership education, so that all will understand their rights and responsibilities.
- Whoever is chosen as chairman to learn the minimum simple procedures for minutes of meetings etc., to avoid future misunderstandings.
- There may be other sources of assistance for co-operatives which members do not know about. They should be informed about any which are relevant to their present situation.

12) Participants may feel that the proposed measures are too rigorous, and that they may lead to the final collapse of the co-operative. Stress that:

- A fundamentally unviable co-operative is of no benefit to the members or to the general public.
- If members have had the opportunity to work in and for a workers' co-operative, and have decided not to continue, this is the best test for their eligibility. They should not be blamed for "disloyalty".
- Workers' co-operatives have no privileges in comparison with other small businesses. They should be given a chance to develop, but should then face the realities of competition, so that the general public gets the most economic goods and services, from whatever source.

13) Ask participants to recall examples of workers' co-operatives, or other enterprises, whose survival has been "artificially" prolonged by loan rescheduling, grants, privileged access to Government orders or other means. Has this been in the genuine long-term interest of the members, or of the general public?

Decay and Revival

The adviser to the Alpha Carpenters' spent a great deal of time with them in the early stages, but he believed firmly that it was vital for a workers' co-operative to stand on its own feet as soon as possible. He had been rather worried by the disagreements expressed at the meeting he attended on June 30th, six months after the carpenters started operations, but he had advised the members to determine their own procedures. He was then called away to several more new groups, and had no further contact with the carpenters.

At the end of December he decided that he would call on the group, to see how they were doing. He was rather surprised when he approached the building and did not hear the usual hammering and cutting sounds which he had become quite used to. There were some signs of activity, but very little.

When he went in, he found six of the members; three of them were sitting around looking bored, and the other three were working rather half-heartedly on some individual orders. There were no signs of the schooldesks and chairs, or the builder's furniture which used to fill the place, except for a few dusty half-finished components lying around. The place was dirty and disorganised, and the six members seemed totally to have lost the spark of enthusiasm which had been so exciting at the start.

The adviser could not hide his disappointment, and he asked the carpenters what was going on. Fred spoke first.

"It is so good to see you", he said, "we were thinking of asking you to come, but we really felt too ashamed, after all you did to help us get started. As you can see, things are in a mess. Eli left about six months ago, and since then nobody has kept any accounts. I do know that we owe the landlord \$200, because he keeps threatening to kick us out, and the company that rented us the machinery say we owe them for two months' hire purchase charges. They were here a few days ago and said they would take the machinery away if we did not pay them soon."

The adviser decided he would try to help. First of all, he would have to find out what the situation was, and then he could see what might be

done, if anything. "What about your sales?", he asked. "I cannot see all those things for the Ministry and the builder that you used to work on all the time."

"As you can see," said Hira, "that business has finished. The builder at least paid us for everything we sold him. The Ministry still owe us \$3000 for desks and chairs we delivered ages ago; they say that the quality was not up to standard, and we cannot get any money out of them. We have got \$300 worth of their components over there, but we have not bothered to complete them".

"What are you doing, then?", asked the adviser.

"We still have our private customers", said Bhatt, "and since we haven't got any ready cash at all we have to ask them to make deposits so we can buy material for them. We have \$300 in deposits now for this work we are doing. We bought this wood with the money. We are selling about \$1000 worth of private work every month, on average, and we can still double the cost of materials when we work out the price."

"What about electricity and so on?", asked the adviser. "Have you been able to pay for them? The machines still seem to be working."

"Yes, we've had to pay them, or they would have cut us off at once", replied George. "Because we are not so busy, it only costs us about \$50 a month now, anyway. We did pay off all our debt to that money-lender, which means we do not have to pay \$60 a month interest to him anymore, but we do have to pay the \$20 to the bank for the \$2000 we still owe them, or they would take us to court right away. David here took our last \$20 to the bank manager yesterday. I think our first \$250 repayment is due to the bank now too, so I don't know what we are going to do about that."

"And are you still earning your wages?", asked the adviser.

"Oh yes," said John, who had just come in, "we are still drawing our \$50 a month each, but I am not so sure if we can go on much longer. Right now we have not got any cash at all, and there is not much hope that the Ministry will pay, but I suppose our private work will carry on, maybe even growing a bit, because we are still keeping them happy,

and satisfied customers tell other people about us. Some of the members who have gone wanted to take their \$50 investment out, but luckily there was nothing in the cash box at the time. It wasn't long after Eli left us, and some of us wonder how he managed to buy his new motorbike the next week, but we could never prove anything".

The adviser had noted down all the information he thought would be useful, and now he had to try to work out their current position, and to decide if there was anything he could do to help.

Assignment:

1. Produce a statement of the current position of the Carpenters' Co-operative, showing how it is using its money, and where the money has come from.
2. Prepare an approximate statement of the current monthly profit or loss for the co-operative as it is now operating.

Role Play: Banker's Brief

You are the bank manager who was responsible for lending the Carpenters' Co-operative \$2000 nearly a year ago. So far, the interest payments have been made regularly, only a few days late at worst. Since the repayments of capital were not due to start until the first anniversary of the co-operative, which fell last week, you are satisfied that this loan has been kept fully up-to-date.

A few days ago, however, you sent a note to the carpenters reminding them that the first repayment of principal, amounting to \$250, was due in a week's time. You heard nothing from them, which was not in itself surprising, but you have been very worried by a number of stories you have been hearing about the group from different informants.

A friend who works at the Ministry of Education mentioned that the group had stopped supplying them a month ago, because of rejects, and a private carpenter recently submitted a loan application and stated that a builder had given him the contract for furniture which used to be made by the carpenters' group.

The landlord who owns the carpenters' premises is also a client of your bank, and when he was attempting to obtain an extension to his loans last week he submitted a list of "official" tenants who were seriously in arrears with their rent. For some reason he thought that the Carpenters' Co-operative were an official group, and he included them in the list.

Your job as bank manager is to anticipate trouble and prevent it happening. The bank's policy, under the new regime of financial retrenchment, is to follow up arrears ruthlessly and to foreclose when necessary. If clients are forced into bankruptcy as a result, this is viewed as an inevitable process of redistribution of assets to people who can make good use of them. Your own portfolio is full of non-performing loans. You know that if you add even one more, you will be in far worse trouble than if you act swiftly and ruthlessly.

You have just heard from the local co-operative adviser that he is having a meeting with a representative of the Carpenters' Co-operative,

and he asked you to join them because your bank is the major creditor. You are determined not to add yet another case of excessive "softness", as your boss calls it, and you are not encouraged to "throw good money after bad", by extending even more loans to late payers, in the hope that they will be able to repay the whole amount in due course.



# Planning for Expansion

SESSION 12PLANNING FOR EXPANSION

Objective: To enable participants to advise and assist members of workers' co-operatives to plan and budget for the future.

Time: 2 - 3 hours.

Material: Case study "Revival and Future Progress".

Session Guide:

- 1) Ensure that all participants have copies of the case study for Session 11, and of the balance sheet for the Carpenters' Co-operative for December 31, 1987, together with the estimate of the current monthly loss of seventy dollars.

If necessary, remind them of the crisis that faced the co-operative after their first year of operations. Stress that most businesses, of all kinds, go through periods of loss and apparent crisis; the ones that survive are usually those whose owners make the necessary sacrifices themselves, rather than depending forever on outside help.

Distribute the case study, and allow participants, on their own, up to 15 minutes to calculate the balance sheet and profit and loss statement as demanded in Assignment A. This is the fourth opportunity that participants have had to work out such figures. Any who have not yet grasped what is required should be paired with those who have, so that the latter can obtain practice in helping others to understand what they themselves already understand. Participants who feel that they are being held back by those who are not so familiar with accounting methods should appreciate that the ability to explain to others is probably more important, and certainly more difficult to acquire, than knowledge of bookkeeping and accounting.

- 2) Reconvene the group and ask a participant to present the figures. By this stage there should be little difficulty in eliciting the following figures for the profit/loss account:

Profit/Loss Account, Alpha Carpenters' Co-operative

January/February, 1988

Sales		\$3300
Costs:		
Materials	\$1800	
Wages	600	
Rent	200	
Machinery hire	200	
Electricity etc.	200	
Interest	40	
		<hr/>
Total Costs		3040
		<hr/>
Surplus		\$ 260

Ensure, by asking appropriate questions that all participants understand why:

- Rent and machinery hire purchase charges are \$200 each, although the carpenters paid \$400 for each during the period. This is because the \$200 owing from November and December were costs for those months, and not for this later period.
- The materials costs include the \$300 for the old materials for the Ministry items. This material belonged to the co-operative, and although it had not appeared to be of any value it was "in the books" for \$300. It must therefore be considered as an expense for this period.
- The wages are \$600, although the six members only drew \$300 in cash. This is because the \$300 which they did not draw is still their property, and only lent to the co-operative.

3) Similarly, elicit the following figures for the balance sheet:

Balance Sheet, Alpha Carpenters' Co-operative

as at February 28, 1988

ASSETS		LIABILITIES	
(How the money is used)		(Where the money came from)	
Owed by Ministry	\$3000	Customer advances	\$ 500
Raw materials	500	Bank loan	2000
Cash	460	Members' investment	500
		Grant	500
		Member deposits	300
		Reinvested surplus	160
	<hr/>		<hr/>
Total	\$3960		\$3960

Participants should calculate the cash as a balancing figure. Stress that the cash balance should of course be controlled with a separate cash account, recording all amounts paid in and out. The balance sheet figure should only be necessary as a cross check to ensure that the cash has been correctly controlled.

Ensure, as before by questioning, that all understand why:

- The Ministry debt is still carried at \$3000, although it seems unlikely that it will be collected in full in the near future. The debt should not be "written off" at this stage, since it is still owed by the Ministry, and the Government is, presumably, not bankrupt. Some allowance might be made for "doubtful debts", however, and this figure demonstrates the danger for advisers, or others, of taking balance sheet figures at their face value. This \$3000 is clearly not money which is immediately available to the co-operative.
  - The members' investment has not increased because the \$300 of their wages which they did not draw was lent to the co-operative and not permanently invested.
  - The reinvested surplus figure is made up of the \$260 surplus earned in January, less the \$100 loss figure which was in the balance sheet at the end of December. \$160 is the net amount of surplus which has been earned and reinvested in the co-operative since its inception.
- 4) Allow participants a further 30 minutes to complete Assignment B. It may be appropriate for them to work in pairs, with those who are more at home with simple financial management and business decisions working with those who need assistance. This should further enhance the advisory ability of those participants who have grasped the necessary skills.
- 5) Ask a participant to give his or her answer to the first question. Ensure that they all appreciate that although the "intangible" aspects of such decisions are important, they cannot be properly considered until the costs and benefits of each alternative have been identified and compared. Management decisions usually involve quantitative comparison followed by qualitative judgement.

If necessary, ask the participants what has to be known about each possible contract before any decision can be made. Elicit the following questions:

- How many man-days will it occupy per month?
- How much money will it earn after the materials have been paid for?
- Will the above amount cover the wages cost involved?
- What is the "contribution" to fixed costs, such as rent, sales and administration, etc., per man-day worked?
- What are the cash flow implications of the order?

6) Elicit the following figures from participants in turn:

Order	Days per month	Sales per month	Materials costs	Contributions to fixed costs	
				Total	Per day
On-site joinery	100	\$ 350	Nil	\$ 350	\$ 3.50
Private orders	150	\$1500	\$ 750	\$ 750	\$ 5.00
Furniture sets	50	\$1400	\$1000	\$ 400	\$ 8.00
Doors	100	\$ 600	\$ 360	\$ 240	\$ 2.40

7) Ask participants how many days capacity the co-operative has to sell;

- 14 "productive" members X 25 days = 350 days per month

How many days of work would be involved if they accept all the orders on offer?

- 400 days.

Which orders must they accept, and on what basis?

- They should accept the orders which earn the most per day worked, after paying for materials. This means that they should only accept orders for 10 doors, since this work makes the lowest contribution.

Some participants may argue that the carpenters should not make any doors, since the contribution per day is less than the wages cost per day, so they "lose" money on each door they make. Ensure that this argument is put forward, and ask participants why the co-operative should accept the work, even if it makes no surplus, and actually loses ten cents for every day spent on it.

- If more profitable work is unlikely to be found, even in the long term, some members might have to leave, or all might have their income reduced. In the short or medium term, however, it is clearly more profitable to lose ten cents a day per member working on this contract, than to pay the member \$2.50 a day for doing nothing.
- This work should be accepted in the short term. However, it should be dropped when more profitable opportunities are found, and the members should try to make the doors more quickly, in order to reduce the time spent on each one and thus turn the small loss into a surplus.

Point out that it is also possible to calculate the total cost of each day worked, by dividing the "overheads" of rent, interest, administration, etc., by the number of days. Ask participants to calculate the "overhead" per day:

Total overheads \$420, divided by 350 man-days = \$1.20 per day

Total cost per day = \$2.50 wage + \$1.20 overhead = \$3.70

Show that this method of calculation does not alter the conclusion, since the overheads are fixed costs, which will have to be spent whatever orders are obtained. The carpenters should accept any orders which make a contribution to the overheads, however small.

- 8) Ask a participant to present an estimate of the profit/loss for the Carpenters' Co-operative if they accept the orders as he or she has suggested. Elicit the figures as follows:

Estimated monthly profit/loss for Alpha Carpenters' Co-operative

SALES:	Private customers	\$ 1500	
	On-site joinery	350	
	Builder's furniture	1400	
	Doors	<u>300</u>	\$ 3550
EXPENSES:	Material: -private customer	\$ 750	
	-builders' furniture	1000	
	-doors	<u>180</u>	
	Total material costs		\$ 1930
	Rent, electricity, hire		
	purchase	\$ 300	
	Wages	1000	
	Bank interest	<u>20</u>	
	Total overhead costs		<u>\$ 1320</u>
	Total expenses		<u>\$ 3250</u>
SURPLUS			\$ 300

- 9) Ask another participant to answer the third part of the assignment. Ensure that all participants remember the cash flow exercise in Session 7, and that they apply a similar method of analysis in this case.

Elicit the following figures, stress again that the actual layout used is not important. What matters is that every adviser should be able confidently to use whatever method he or she prefers, and is able to explain this to members of workers' co-operatives so that they too can plan their cash flow for themselves.

Item	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
<u>Cash In</u>										
Starting balance	\$460	(\$540)	(\$240)	\$60	\$360	\$660	\$960	\$1260	\$1560	\$1860
New member investment	400									
On-site work	350	350	350	350	350	350	350	350	350	350
Customer deposits	750	750	750	750	750	750	750	750	750	750
Private payments	750	750	750	750	750	750	750	750	750	750
Furniture sets	Nil	1400	1400	1400	1400	1400	1400	1400	1400	1400
Doors	<u>Nil</u>	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>
Total in	2710	3010	3310	3610	3910	4210	4510	4810	5110	5410
<u>Cash Out</u>										
Private material	750	750	750	750	750	750	750	750	750	750
Builder's material	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
Doors material	180	180	180	180	180	180	180	180	180	180
Rent, elec., H.P., interest	320	320	320	320	320	320	320	320	320	320
Members' wages	<u>1000</u>	<u>1000</u>	<u>1000</u>	<u>1000</u>	<u>1000</u>	<u>1000</u>	<u>1000</u>	<u>1000</u>	<u>1000</u>	<u>1000</u>
Total out	3250	3250	3250	3250	3250	3250	3250	3250	3250	3250
Ending balance	(\$540)	(\$240)	\$ 60	\$ 360	\$ 660	\$ 960	\$1260	\$1560	\$1860	\$2160

10) Ask participants what this analysis tells them about the financial needs and opportunities of the co-operative.

- They will need more cash initially to be able to take on the new work.
- They will be able to repay their debts in a few months.

Remind participants that this analysis is not an end in itself; they must now use it to decide how they can answer the bank manager. Ask participants for their suggestions and ensure that all appreciate:

- the need for a "cushion" to allow for unexpected opportunities or delays;
- the need for any prospective borrower to demonstrate clearly to the lender how the money will be used and when it will be paid back;
- the need to take any new interest payments into account.

Elicit suggestions such as:

- Borrow a further \$ 1000 in March.
- The total debt of \$3000 to be repaid in 12 monthly instalments of \$250, starting in May.
- The \$300 member deposits from January/February to be repaid at \$100 per month, in May, June and July.

Ask participants to calculate the effects of whatever they suggest on the cash flow forecast, and to make the necessary alterations in the figures. The above suggestion, for instance, involves increasing the monthly interest charge to \$30. The revised cash flow forecast, which should be presented to the bank manager, will be as follows:

Item	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
<u>Cash In</u>										
Starting balance	\$ 460	\$ 450	\$ 740	\$ 680	\$ 620	\$ 560	\$ 600	\$ 640	\$ 680	\$ 720
Receipts as before	2250	3550	3550	3550	3550	3550	3550	3550	3550	3550
Bank loan	1000	_____	_____	_____	_____	_____	_____	_____	_____	_____
Total in	3710	4000	4290	4230	4170	4110	4150	4190	4230	4270
<u>Cash out</u>										
Cash paid as before	3250	3250	3250	3250	3250	3250	3250	3250	3250	3250
Extra interest	10	10	10	10	10	10	10	10	10	10
Member deposit repayments			100	100	100					
Bank loan repayments	_____	_____	250	250	250	250	250	250	250	250
Total out	3260	3260	3610	3610	3610	3510	3510	3510	3510	3510
Ending balance	\$ 450	\$ 740	\$ 680	\$ 620	\$ 560	\$ 600	\$ 640	\$ 680	\$ 720	\$ 760

11) Stress that this layout should be used to examine the cash flow effects of other possibilities. Ask participants for suggestions, for instance, as to what the carpenters might do if the bank manager will not agree to lend them any more money.

- They could delay starting the builder's furniture work, because it uses the most working capital.
- They could ask the new members to make temporary loans to the co-operative from their wages in the same way as the six members did in January and February.

Depending on the time available, and participants' need for further practice, elicit revisions of the cash flow forecasts to examine the effect of these and other possibilities.

12) Ask participants to suggest other ways in which this method of forecasting can be used to plan the future of a workers' co-operative. Elicit suggestions such as:

- Members can identify "gaps" when it is necessary to obtain additional orders, even at low rates of profit.
- The figures can be used as the basis of budgets for sales, expenses, collections, member recruitment and so on.

Stress that these cash flow forecasts, like budgets, accounts and all kinds of management techniques, are of no value at all in themselves. They must be used as the basis of decisions; which must then be implemented.

The task of an adviser is to assist members to prepare and use such techniques as are genuinely useful for them, and not to impose standardised systems without reference to the abilities, needs or circumstances of the particular co-operative which is being advised.

Remind participants of the basic sequence of advice which they have practised during this course:

- Find out the current situation of the co-operative.
- Show members how to understand the effects of various alternatives.
- Help members to understand the effects of various alternatives.
- Let them make their own decisions, based on this understanding.
- Provide such advice and help as they need in implementing their decisions, without making them dependent on the adviser.

Stress that the ultimate goal of any adviser should be to "put himself out of business" by developing the ability of members to do things for themselves.

Revival and Future ProgressPart A

The carpenters had at first been very disappointed when the bank manager refused to loan them any more money when they had run out of cash and when their co-operative appeared about to go out of business forever. They had realised, however, that their future lay in their own hands. The manager had told them that he was willing to allow them to delay their first loan repayment of \$250, by two months, and that he might consider extending them a further loan after that period, so long as they could show that they were both willing and able to raise some more money themselves. He also insisted that they should pay the \$20 interest charge every month, as before.

The adviser had tried without success to persuade the Ministry of Education to pay the \$3000 they owed, or even to pay some lower amount in complete settlement, since the carpenters did not want to sell to them any more, and were willing to "write off" part of the debt in order to raise cash. He had been more successful, however, when he spoke to the landlord and the machinery hire purchase company on the carpenters' behalf. The premises which the carpenters occupied, could not easily be relet, so the landlord agreed to delay eviction proceedings until the end of January. The machinery suppliers supplied a great deal of equipment to co-operatives and other organisations with which the adviser was in contact. He suggested that he could use his contacts to introduce new customers to them, so long as they helped him in this instance, and they too agreed to delay seizure of the machines until the end of January.

Meanwhile the remaining six members had not been idle. They continued working on private furniture orders as before, and also made a big effort to get more such orders, by calling on a number of prospective customers. They successfully completed a total of \$3000 worth of such products during January and February 1988. As before, they received advances for the raw material, which cost on average half the selling prices, and at the end of February they still had \$500 worth of such raw materials for goods to be delivered in March. All the private customers paid the balance of what they owed for their furniture when they

The members decided that John, whom they had elected as chairman, should continue to spend his time dealing with customers and directing the affairs of the co-operative. One of the new members, Shastri, had some accounting experience, and they agreed that he should keep the records and deal with payments and so on. This meant that fourteen of the sixteen members would be available for actual carpentry work.

After some discussion the members also agreed that they should, from March onwards, pay themselves a little more generously than before. They decided that they would all get \$2.50 a day, or \$62.50 a month, regardless of what work they were doing.

Everything seemed to be going rather well, but when John took the February interest payment of \$20 down to the bank in the second week of March, the manager called him into his office. "I understand that things have been going better for you," he said. "You must not forget, though, that you are two months behind with your monthly repayment instalments of \$250. You must tell me exactly when you propose to pay, and if you have a good case for further extension, or even for a further loan, you must put it to me so that I can consider it properly."

John called the members together for a meeting, and they agreed that they should ask their adviser for some assistance in deciding which work to undertake, and how to answer the bank manager. He and the other five members who had worked throughout were also rather concerned about the \$50 each of them had lent to the co-operative. They wanted to recover the money, but felt that they would like advice on exactly when they should do this.

Assignment B:

- 1) Which of the various offers of work would you advise the carpenters to accept?
- 2) What will be their monthly profit (or loss) if they decide to accept your advice as above?
- 3) Make an estimate of the cash flows involved in your recommendations, for the remaining ten months of 1988. How should the members respond to the bank manager's request?



## Action Commitment

SESSION 13ACTION COMMITMENT

Objective: To enable participants to identify a specific task which they will commit themselves to undertake on their return to work, and which will apply what they have learned in this course.

Time: Depending on number of participants, around ten minutes each.

Material: Action Commitment form.

- Participants should have been warned at the beginning of the course, and reminded at appropriate points in the sessions, that they should continually think of ways in which they can apply what they have been learning to their own jobs.

It is to be hoped that participants will do many new things as a result of the course, and that what they have learned will affect everything they do in the field of workers' co-operatives. It is useful, nevertheless, to choose one task which they will commit themselves to complete within six months.

Therefore, in this session, they are to present this particular task, in writing and orally, to the rest of the participants, subjected to their advice and comments.

The Action Commitment form should, if possible, be distributed to participants well before this session. Participants should be asked to complete it in duplicate and give one copy to the instructor before the session. If possible, all participants should be given copies of each of their colleagues' forms, or at least a summarised version.

Session Guide:

- 1) Ask participants what they will find when they return to their offices or other work places after this course.