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# Guide to Local Economic Development: Resource Handbook

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Gary B. Hansen, August 2003

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## Forward

The *WSI Guide to local economic development* is an integrated set of materials that include a resource handbook and participant workbook that provide practical ideas, tools and techniques to local government officials and business leaders in Central and Eastern Europe who are seeking to improve the economic conditions of people and businesses in their communities. It is one component of the “USDOL/WSI Integrated Adjustment Program,” an innovative approach to assist workers, enterprises and communities impacted by economic restructuring in Central and Eastern Europe. (The other two operational components of the USDOL/WSI Integrated Adjustment Program are a Rapid Response Worker Adjustment Component and an Enterprise Restructuring and Competitiveness Component.).

The local economic development component was developed in the mid-1990’s by Dr. Gary B. Hansen, first as part of a project for the International Labor Office, and, subsequently, made available to the United States Department of Labor’s Hungary Rapid Response Project. The original Guide was designed to facilitate the successful economic adjustment of communities transitioning from command to market economies.

Beginning with its first use in Hungary in June 1996, four editions of the predecessor guide, *A Guide to Community Economic Renewal*, were written, translated and widely used during the ensuing eight years to assist leaders, citizens and communities in six Central and Eastern European countries to undertake local economic renewal and development, strengthen enterprises and create jobs. These countries are: Hungary, Romania, Poland, Bulgaria, Macedonia and Ukraine.

Thanks to the efforts and support of USAID and USDOL, it has been possible in the Spring of 2003 to prepare a new version of the Guide that could be used in the future by others in the Central and Eastern European Region. This new version of Guide has been specifically designed to assist those national and local leaders in other CEE countries that may want to undertake local economic development efforts. Although shorter in length, it contains much of the material in the earlier versions, plus some new material and some additional examples from the completed and ongoing USDOL/WSI adjustment projects.

The contents of this new version of WSI Guide--*Participant Workbook* and *Resource Handbook*--are presented in non-technical language and in a step-by-step format, outlining how to implement the concepts and techniques discussed. It combines basic information about planning and organizing for local economic development with successful examples and practical techniques that have been developed and used by leaders and communities in Central Europe and North America faced with economic decline and structural changes.

The *WSI Guide to local economic development: Participant Workbook*, introduces workshop participants to the principles and concepts of local economic development, or community economic renewal as it is called in this guide. It outlines the assessment, organization, and strategic planning process needed to undertake renewal, describes how community workshops can be used to plan economic renewal, explains some innovative institutional structures to promote economic development, and provides examples of how these innovative approaches have been carried out in North America, and, more recently, in Central and Eastern Europe.

The companion *WSI Guide to Local Economic Development: Resource Handbook*, presents selected examples of successful “business-oriented” approaches, institutions, and innovative techniques being used to generate employment and economic growth in a number of countries, including western and central Europe, North America and Asia. It also contains “Getting Started” sections that spell out “step-by-step” how to implement or these approaches and establish these facilitative institutions.

In addition to the two primary components of the WSI Guide, three other resource items have been prepared to facilitate the successful implementation of economic renewal and development efforts at the community level. These are:

1. A *Workshop Facilitator training manual*, contains tools and techniques that are used by workshop facilitators selected to help the LED workshop participants more effectively carry out their community assessment, planning and project development work during Phase I.
2. The document *Tools and tips to build successful programs*, contains tools and techniques that can be used by communities to achieve more successful economic development programs. One important tool is getting the word out and building support in the community for economic renewal and development. Section 3 in this guide provides guidance in communicating more effectively with the community through the local media.
3. Finally, a *Teambuilding training manual*, contains workshop and other materials needed to train community economic development teams and project implementation teams so that they can function more efficiently and effectively when participating in the LED process, and when implementing their projects and sustaining their LED activities on a continuing basis.

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# Chapter 1

## Importance of entrepreneurs and small businesses to economic renewal

In today's world, international competition, unemployment and underemployment, and failed development initiatives have heightened the importance of entrepreneurship and small enterprise development to the economies of communities and nations. Decentralized decision making has increased the need for endogenous development—controlled development from within which focuses on local resources, institutions and economic activities. Controlled development from within increases the importance of small firms as generators of employment.<sup>1</sup> Thus, small enterprises, local communities and their surrounding regions are key units of development and job creation.

To set the stage for the subsequent chapters in Part II of this guide, it is important: (a) to define the terms used and indicate the importance of entrepreneurship and small business to economic and employment development; (b) to outline the paths to entrepreneurship and business creation; and (c) to identify the problems and issues relevant to promoting entrepreneurial initiatives and employment development at the local level. Chapters 2 through 12 provide examples of the different types of entrepreneurial initiatives which are being used throughout the world.

### Definition of terms

#### Entrepreneurs

The dictionary defines an entrepreneur as “a person who organizes, manages, and assumes responsibility for a business or other enterprise” and “an employer of productive labor.”<sup>2</sup> Management theorist Peter Drucker describes entrepreneurs as people who perform the tasks of entrepreneurs in their career goals. The tasks of entrepreneurs include ongoing searches for new opportunities, responding to select opportunities and exploiting them.<sup>3</sup> In a business context, several different kinds of entrepreneurs can be identified: (1) independent, high-potential business starters, often innovators or inventors; (2) new business starters within corporations, sometimes called intrapreneurs; (3) people who are self-employed, including artisans,

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<sup>1</sup>Frank Pyke, *Small Firms, technical services and inter-firm cooperation*, Geneva: International Institute for Labor Studies, 1994, p. 1.

<sup>2</sup>*Random House College Dictionary Revised Edition*, New York, 1983, p. 442.

<sup>3</sup>Peter Drucker, *Innovation and entrepreneurship*, New York, 1985.

craftspeople, and professionals such as physicians, lawyers, and accountants; (4) acquirers and operators; deal makers and brokers; and (turnaround) specialists.<sup>4</sup>

The ILO notes that “in its broadest sense the term [entrepreneur] includes persons in work situations in large, medium and small enterprises, as well as those in co-operatives and government; it can even be used in non-work situations, for example to denote a person who improves social and economic conditions in a local community.”<sup>5</sup>

### **Informal sector**

In his 1991 Report to the 78th Session of the International Labor Conference, the ILO Director-General defined the term *informal sector* as follows: “The term ‘informal sector’ will refer to very small-scale units producing and distributing goods and services, and consisting largely of independent, self-employed producers in urban areas of developing countries, some of whom also employ family labor and/or a few hired workers or apprentices; which operate with very little capital, or not at all; which utilize a low level of technology and skills; which therefore operate at a low level of productivity; and which generally provide very low and irregular incomes and highly unstable employment to those who work in it. They are informal in the sense that they are for the most part unregistered and unrecorded in official statistics; they tend to have little or no access to organized markets, to credit institutions, to formal education and training institutions, or to many public services and amenities; they are not recognized, supported or regulated by the government; they are often compelled by circumstances to operate outside the framework of the law...”<sup>6</sup>

### **Microenterprise**

Though there is no simple definition for a microenterprise, an Aspen Institute research project on microenterprise development in the United States defines a microenterprise as “a sole proprietorship, partnership or family business with less than ten employees, generally does not have access to the commercial banking sector and can utilize a loan of under \$15,000.”<sup>7</sup>

This definition is somewhat inclusive as most microenterprises have less than three employees. Many microbusinesses, perhaps the majority, are operated by only the owner; this has led to the frequent use of the term self-employment. The concept of microenterprise is generally associated with the informal sector. Some microenterprises are home-based service or retail operations that provide supplementary income to the proprietor. These businesses are difficult to regulate and monitor.<sup>8</sup>

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<sup>4</sup> K. H. Vesper, *New Venture Strategies*, Englewood Cliffs, N.J., 1980.

<sup>5</sup> ILO: *The Promotion of Small and Medium-Sized Enterprises*, International Labour Conference, 72nd Session, 1986 (Geneva, ILO), p. 4.

<sup>6</sup> ILO: *The dilemma of the informal sector*, Report of the Director-General (Part I), International Labour Conference, 78th Session, Geneva, 1991, p. 4.

<sup>7</sup> “Definitions.” *1992 Microenterprise Briefing Packet*, The Aspen Institute. The *Self-Employment Learning Project Directory*, compiled by the Self-Employment Learning Project of the Aspen Institute, in collaboration with the Association for Enterprise Opportunity, provides a current profile of the scope and characteristics of current microenterprise programs in the United States.

<sup>8</sup> Jacqueline Novogratz, *Hopeful Change: The potential of micro-enterprise programs as a Community Revitalization Intervention*, New York: The Rockefeller Foundation, June 1992, p. 3.

## Self-employment

The U.S. Department of Labor defines self-employed people as those who work for profit or fees for ten hours or more a week in their own business, profession, trade or on a farm. The businesses operated by self-employed people may be called microenterprises because of their small size in terms of numbers of employees, sales, assets or other characteristics. Although the terms *microenterprise* and *self-employment* are used interchangeably, *self-employment* refers to the status of business owners while *microenterprise* refers to very small businesses.<sup>9</sup>

Some other points should be made about *self-employment*: (1) self-employment has global application and is relevant to both industrialized market economy countries and developing countries; (2) it is very important in both urban and rural areas; and (3) according to a report by the International Labor Office (ILO), some organizational forms such as worker participation (and even large-scale worker buy-outs) and profit-sharing schemes “verge on self-employment.”<sup>10</sup> Although the ILO report does not cover cooperative-type joint-stock enterprises and workers’ cooperatives, it does accept that they have some intriguing and potentially significant implications for employment policy.

A distinction should also be made between *self-employment* and *wage employment*. Some fundamental characteristics distinguish them. The earnings of the self-employed are considered to be a return on their invested capital as well as their labor, entrepreneurial skills and risk-taking whereas the earnings of wage-employees are solely a return for their labor. In contrast to most wage-employees, self-employed people have considerable independence. They control the use of their labor and time, are responsible for economic decisions and bear the risk of failure. Though the self-employed are likely to face reduced earnings and loss of capital, and perhaps increased competition from former employees entering self-employment during times of recession, the wage-employees may be laid off or discharged.<sup>11</sup>

## Small-scale enterprise (SSE)/ small and medium-sized enterprise (SME)

The SSE sector, or SME sector as it is sometimes called, is difficult to define because official definitions of small enterprises vary and there are ambiguities in the terminology. One study of small businesses has identified more than 50 different definitions in 75 countries.<sup>12</sup>

According to an ILO report on training entrepreneurs for small business creation, SSEs are generally more labor-intensive than larger organizations. SSEs include small but relatively modern manufacturing industries and organized non-manufacturing activity such as construction, transport, and trading, and traditional or “informal” activity.<sup>13</sup> Another ILO report on the promotion of small and medium-sized enterprises defines them “in the broadest sense of the term”:

covering modern enterprises of up to 50 people, family businesses engaging three or four family members, cottage industry, partnerships, companies, co-operatives, sole ownerships, micro-enterprises and self-employed workers in the informal

<sup>9</sup> “Definitions.” 1992 *Microenterprise Briefing Packet*, Washington, D.C.: The Aspen Institute.

<sup>10</sup> ILO, *The role of cooperatives in the promotion of employment and income in the rural and informal sectors*, Report 3, Meeting of Experts on Cooperatives, Geneva, 29 March–2 April 1993 (Geneva, 1992), p. 4.

<sup>11</sup> *Ibid.*

<sup>12</sup> Philip A. Neck and Robert E. Nelson, (eds.), *Small enterprise development: policies and programmes*, Management Development Series No. 14 (Geneva: ILO, 1977), p. 8.

<sup>13</sup> Kenneth Loucks, *Training entrepreneurs for small business creation: Lessons from experience*, Management Development Series No. 26 (Geneva: ILO, 1988), p. 1.

sector of the economy. Additionally, the sector includes non-manufacturing businesses engaged in small building construction, transportation, maintenance and repair services, trade, etc. Generally speaking, reference to SMEs will focus on enterprises in which the major operational and administrative management decisions normally lie with one or two people.<sup>14</sup>

In the United States, small businesses are defined to include all enterprises employing up to 500 employees.

## **Importance of entrepreneurs and job creation in industrialized market economy countries**

It is important to understand the role of entrepreneurship, small business and microenterprise development in the economy. Researcher David Birch conducted long-term research on job generation in the United States in the early 1980s and found that large firms are no longer the major providers of new jobs for Americans. Rather, he discovered that most new jobs—some 80 percent—originate in small firms.<sup>15</sup> Although other scholars have challenged his findings, a number of subsequent independent studies based on different statistical methodologies have converged towards a similar conclusion. Between the mid-1970s and the early 1990s, small firms have generated substantial numbers of new jobs.<sup>16</sup>

Another myth which has been dispelled by recent research is that the jobs created by small firms pay low wages. A 1993 study in the U.S. found that during 1987 to 1992, firms with fewer than 100 employees added a net 5,864,000 jobs, of which 85 percent paid average or better wages. During the same period, large firms lost a net 2,320,000 jobs, and 96 percent of them were high-paying.<sup>17</sup> The strong job-creating performance of small companies was concentrated in 5 to 10 percent of all businesses; these 350,000 firms accounted for 70 percent of all new jobs. Job-creating small firms were also innovative, able to adapt quickly to changing market conditions, and were found in a broad cross section of industries.<sup>18</sup>

Scholars have found that small business job generation has occurred in most industrialized market economy countries. Through their research, we now have a far better understanding of the economic role that small firms and entrepreneurship play. Among the findings:<sup>19</sup>

- Firm size has shifted from large firms to smaller ones.
- Firm growth rate decreases with firm size and firm age.
- The small-firm share of employment is growing faster in the goods-producing sectors than for the economy as a whole.
- Small firms are at least as innovative as large firms on a per employee basis and generally have the innovative advantage in high-technology industries.
- Small firms face binding liquidity constraints.

<sup>14</sup> ILO: *The Promotion of Small and Medium-Sized Enterprises*, International Labour Conference, 72nd Session, 1986 (Geneva, ILO), p. 4.

<sup>15</sup> David Birch, "Who Creates Jobs," *The Public Interest*, 1981, pp. 3–14.

<sup>16</sup> Zoltan J. Acs and David B. Audretsch, "The Social and Economic Impact of Entrepreneurship," Chapter 3 in D. L. Sexton and J. D. Kasarda, eds. *The State of the Art of Entrepreneurship*, Boston, 1992, pp. 46–47.

<sup>17</sup> "Pay Bonus: Small Firms actually improve the U.S. wage picture," *Wall Street Journal*, May 4, 1993, p. 1.

<sup>18</sup> Ronald Rosenberg, "Fast Track: Small companies big on new job creations," *Boston Globe*, May 5, 1993, p. 48.

<sup>19</sup> Acs & Audretsch, pp. 48–52.

- Most new manufacturing plants begin on a small scale.
- Firm survival is related to size and age. New firm start-ups as well as new plants tend to have a lower rate of survival than established firms. However, roughly 40 percent of new firms survive at least six years, and nearly 47 percent survive in manufacturing. Also, about 60 percent of the persons entering self-employment are still in business 10 years later.
- Small firms produce a greater share of new jobs in the U.S. and at least a proportionate share of new jobs in Europe where job generation has been less dramatic. In Europe, substantial job losses by large firms have dominated the employment statistics and offset the employment gains of smaller firms.
- One of the most striking findings in the U.S. is that small firm turbulence (simultaneous entry and exit) is more than one-third greater under the entrepreneurial regime than under mass production. Small businesses create new jobs by a dynamic process of expansion and contraction—births and deaths—within the small firm sector, resulting in firm failures and at least temporary job displacement and unemployment.

Many scholars have concluded that entrepreneurship and innovative small firms have contributed significantly to employment creation and economic development in America and Europe during the past two decades; and in America they have compensated for the decline of traditional industries.<sup>20</sup>

## **Entrepreneurship and employment creation in Central and Eastern Europe**

While Western economies have restructured their industries into smaller production units, the average size of establishments increased dramatically in central and eastern European countries under communism. Scholars studying the economic impact of entrepreneurship in former communist countries have observed that centralized planning caused the high degree of industrial concentration. Furthermore, the “virtual obliteration of small firms and entrepreneurship has deprived eastern European countries of a key element to industrial restructuring and technological progress. Therefore, a crucial ingredient of restructuring in the eastern European economies involves generating a vital base of entrepreneurial activity.”<sup>21</sup>

## **Creating a climate for successful entrepreneurship and small enterprise development**

According to ILO researchers Theocharides and Tolentino, recent empirical experiences suggest that effective entrepreneurship and small enterprise development (SED) have two objectives: (1)

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<sup>20</sup>*Ibid.*, p. 53.

<sup>21</sup>Acs and Audretsch, p. 62.

to create businesses; and (2) to expand existing enterprises. The successful achievement of these two objectives requires an integrated and holistic approach that comprises:<sup>22</sup>

- the development of appropriate environments and free market policies;
- studies and strategies to match demand with local resource potentials for substantial, effective employment and business creation;
- cost-effective institutions and processes, including training and follow-up services;
- institutions that support the growth of existing businesses;
- credit and financial facilities; and
- national authorities to pursue and support policies and institutions for small enterprise development.

These authors suggest that successful entrepreneurship and small enterprise development depend on two primary factors: **(1) an enabling policy environment**; and **(2) the identification of economic and business potentialities**. They argue that a number of constraints in the policy regulatory environment hinder entrepreneurship and SED in many countries. These constraints are: political climate; economic and business climate; social and psychological environments; monetary and credit facilities; educational policies; training and advisory services; sectoral support; technology and guidance; social safety standards; and legal environment.

In their view, the best way to change the policy environment is “a participative approach which aims at creating joint and collaborative efforts between governments and the private sector to remove constraints and develop strategies for small and medium enterprise development.”<sup>23</sup> Because the traditional sectors in many developing countries may not be able to absorb the present and future unemployed, methodologies and institutions need to be developed to identify untapped human, economic and cultural potentialities.<sup>24</sup> Thus, efforts should be made to identify demand opportunities, gaps in the production system, and the availability and advantage of local resources (products, raw materials, skills, traditions, etc.) that could be used as the basis for creating new enterprises and industries.

A consultative group convened by UNIDO in 1989 to consider the promotion and development needs of SMEs, also identified a number of constraints and problems that entrepreneurs and SMEs face. The consultation concluded that:<sup>25</sup>

- firm national commitment and will are required to create environments conducive to the growth of SMEs;
- appropriate national policies are urgently needed for the growth of the SME sector;
- non-governmental organizations such as associations of SMEs, chambers of commerce, groups of producers, and federations of cooperatives have a vital role to play as key agents of change through institutionalized interaction with Governments;
- a coherent national program of action to develop entrepreneurship is crucial to the development of the SME sector, including inter alia, the suitable reorientation of

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<sup>22</sup> S. Theocharides and A. Tolentino, *Integrated Strategies for Small Enterprise Development: A Policy Paper*. SED/19/E (Geneva, ILO Small Enterprise Section, 1991), p. 1.

<sup>23</sup> *Ibid.*, p. 7.

<sup>24</sup> *Ibid.* p. 9.

<sup>25</sup> *Report: Consultation on Small and Medium-Scale Enterprises Including Co-operatives, Bari, Italy, 9–13 October 1989*, (UNIDO: Vienna, 1989), pp. 6–20.

- programs and policies for education and training to stimulate self-employment, the creation of small enterprises, and the growth of an entrepreneurial culture;
- modernization of the SME sector with a view to improving productivity and quality is urgently needed;
  - collective research and development efforts for the SME sector are needed;
  - institutional support is needed to develop marketing and sales promotion strategies and schemes and to collect and analyze market information;
  - better financial support mechanisms are needed for SMEs; and
  - coordinated financial and technical assistance for SMEs is needed at the national level to ensure favorable conditions for welcoming investors.

The work of Theocharides and Tolentino represents a policy level attempt to promote an integrated or holistic approach to entrepreneurship and small enterprise development. In addition to policy efforts designed to reduce environmental constraints, a number of programmatic approaches and specific initiatives and actions can be taken to promote and foster entrepreneurship and SED. These efforts can be promoted and fostered on a community-wide basis or on a more limited or sectoral basis.

During the past two decades, many countries, communities and groups of people throughout the world have attempted to develop and implement initiatives to foster entrepreneurship and small enterprise development. While an impressive range and variety of initiatives have been developed, no listing of them is available to others seeking new ideas. Consequently, it is useful to identify and describe a few of the representative types and range of entrepreneurial initiatives that have been developed and promoted in order to provide a framework for this discussion and to help us design more effective strategies for local employment and economic development.

In general, there are three broad approaches which can be used to promote entrepreneurship and SED development:<sup>26</sup>

1. ***changing the environment***—focusing on laws and regulations, fiscal incentives and infrastructural facilities;
2. ***training and consultancy programs*** improving entrepreneurial, managerial and business competence; and
3. ***promoting an entrepreneurial culture***—designing programs to make specific communities more entrepreneurially oriented.

A work group comprised of 55 international experts, was convened in Aarhus, Denmark in June 1993 under the auspices of the ILO and Commission of the European Communities, to discuss the problems surrounding the development and promotion of entrepreneurship and small business—with a special emphasis on central and eastern Europe. After carefully analyzing the problems, and reviewing existing strategies, initiatives and institutions, policy measures, and current advice in the field of entrepreneurship and business creation, the work group made eight recommendations which address each of the three approaches to promote entrepreneurship and SED<sup>27</sup> These recommendations are presented as the following “getting started” section.

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<sup>26</sup> “Integrated Approaches to Entrepreneurship Development,” Chapter 2 in *New Initiatives in Entrepreneurship Development*, Proceedings of the ICPE/ILO/INTAN Workshop (Kuala Lumpur, 19–22 August 1991), p. 4.

<sup>27</sup> *The design and implementation of strategies for local employment and economic development*, Geneva: International Labor Organization and Commission of the European Communities, pp. 22–27.

## Getting Started:

# Promoting entrepreneurship and small enterprise development

## Step 1: Build upon existing entrepreneurial culture

All societies, no matter what their cultural settings, possess an innate talent for entrepreneurial initiatives. However, certain environments and structures encourage entrepreneurship while others discourage it.

The entrepreneur should be portrayed as a positive role model. Business failure should not be viewed as a social stigma, but reflect the risks of entrepreneurial actions.

Publicity and promotional campaigns should be launched and award systems should be created to enhance the image and esteem of entrepreneurs.

Educational systems should include entrepreneurial studies and self-employment as an integral component within the school curriculum. Formal educational systems often neglect the training needs of potential and existing entrepreneurs. School curriculum should include entrepreneurship and self-employment courses. Programs such as the ILO “Know About Business” (KAB) package<sup>28</sup> (a set of training materials for teaching entrepreneurship education in secondary vocational schools) should be introduced into the curriculums of vocational education and training institutions. The primary purpose of the KAB package is to enable young people to choose entrepreneurship and self-employment as career options. University and professional training programs should also stress entrepreneurship as a career choice.

The fiscal-taxation system should be modified to encourage risk taking.

Efforts should be made and policies implemented to seek out potential entrepreneurs currently working in large companies, universities, research establishments, etc. Policies should be introduced to ease the transition from employment to entrepreneurship. For example, portable pensions, and providing unemployment or severance benefits in a lump sum for those individuals who want to start a business.

Policies should include talent scouting, innovation centers, science parks, etc., to foster closer linkages between universities and commercial enterprises.

## Step 2: Train people in entrepreneurial skills

The training needs of potential and existing entrepreneurs have been somewhat neglected by the formal educational system. All entrepreneurs require competence in the preparation of business plans in order to submit financing applications to banks. They also require training in basic business skills such as, production, marketing and accounting.

Entrepreneurs tend not to avail themselves of formal training programs because of major constraints on their time. The training needs of entrepreneurs in Central and Eastern Europe are particularly acute because of the complete absence of training staff, materials and programs.

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<sup>28</sup> *Know About Business Training Package*. ILO International Training Center (Turin) and ILO Management and Development Branch, Geneva, 1996.

Local economic development organizations should develop bespoke training programs for local entrepreneurs, operated on an open access basis. Materials should be developed using open learning and practical case studies.

Entrepreneurial training programs for Central and Eastern Europe should initially concentrate on the training of trainers utilizing resources such as the secondment of retired western business persons for short term assignments in companies. In addition, resources such as ethnic relatives with entrepreneurial experience who live in western countries are a valuable and talented resource which could be tapped. Twinning mechanisms should be encouraged and fostered between western organizations such as university business schools, entrepreneurship training centers, micro-enterprise development programs, local economic development agencies and local authorities.

### **Step 3: Provide information and advice**

Persons and groups interested in becoming entrepreneurs and persons and groups engaging in the early stages of entrepreneurship in local communities need considerable information and advice. There is considerable knowledge and information about successful entrepreneurial initiatives available at the national and international levels, including some innovative approaches to expand entrepreneurship, which are unknown or inaccessible at the local level. The problem is one of making both types of information and experience available in timely and practical ways to those who need and can benefit from it.

Best practices and successful experiences of entrepreneurship development should be documented and widely disseminated in order to facilitate replication where applicable. This should include information about recent entrepreneurial initiatives such as: (a) collaborative networking and interfirm cooperation; (b) cooperative and other organized group approaches to entrepreneurship; (c) cooperative-type ownership structures including ESOPs, labor limited companies and cooperative stock companies; (d) community-based entrepreneurship approaches, including community cooperatives, community businesses and community development corporations; (e) business incubators, cooperative and individually-owned types of common facilities centers; (f) entrepreneurship training programs and micro enterprise development programs; (g) franchising for small enterprise promotion; (h) small business advisory services; (i) capitalization of self-employment and new business creation through unemployment insurance and severance benefits; industrial or manufacturing extension services; and (j) credit cooperatives, revolving loan funds and micro-lending programs.

Provision of “business advice nights” which operate on a drop-in mode and offer one-to-one counseling. Each locality should operate “enterprise agencies” i.e., agencies which offer first stage advice and information on starting up businesses, to include *inter alia*, legal structures, sources of finance, taxation issues, availability of local premises, market opportunities, required permits and approvals, etc. These agencies should link into and draw support from local government, higher education institutions and existing enterprises.

One innovative proposal was to entitle potential entrepreneurs to a voucher which they can use to purchase advisory services in the marketplace.

## **Step 4: Improve access to capital**

Access to appropriate finance is considered to be of fundamental importance in stimulating entrepreneurial activity. Many sound business propositions fail to materialize because of reluctance by the banking system to provide equity finance to start-up companies.

Investment finance could be classified into three categories:

1. Start-up and early stage financing. Required by potential entrepreneurs who often lacked collateral, or failed to present well prepared business plans.
2. Seed capital. Required to realize concepts, develop prototypes, etc. This type of finance was often required to produce innovative products and services which are currently some way off the market.
3. Venture capital. Required by existing companies to expand their operations or to diversify into new markets.

Measures proposed to increase the supply of capital should include the following:

- Establish a local development agency which directly provides risk capital or provides a basis for making it available to small firms and start-ups.
- Capitalize unemployment benefits and/or substitute unemployment benefits for enterprise allowances payable to new start-up enterprises and individuals who choose to become self-employed.
- Introduce significant tax incentives for private investors in SMEs to equalize risks and rewards. These local private investors also represent a major (and important) source of advice and counseling for the companies they invest in.
- Mobilize community funds through such institutions as credit unions and community credit cooperatives.
- Introduce government loan guarantees to reduce the risks of the banking sector.
- Encourage international finance agencies to directly provide (through an intermediary) investment funds for SMEs.
- Encourage banking systems to be more responsive to local investment needs.
- Involve NGO's as intermediaries to provide credit for micro enterprises, where loans are small and more costly to make and service.

## **Step 5: Improve access to technology**

Developing economies and the economies in transition in Central and Eastern Europe require more information on and better access to appropriate technology. One proposal to improve access to information on up-to-date and appropriate technology is to utilize local libraries as a delivery mechanism. Increasing technology transfer through the creation of innovation centers and industrial extension services is also recommended.

Many examples can be cited where new capital equipment has been purchased which is incompatible with local factor inputs and where the supply of spare parts is a serious constraint. There is a need for long term policies on the import of technology, spare parts and factors of production.

The establishment of shared production and service facilities should be considered, but this may be difficult to implement because of the reluctance of some entrepreneurs and SMEs to collaborate because of their attitude toward competitors and whether these facilities could ever be self-financing.

Due to the shortage of hard currency for the purpose of buying technology, the promotion of joint ventures in LDCs and CIS countries is one way forward.

Joint purchasing initiatives, including cooperatives organized for this purpose, are also seen as an opportunity.

## **Step 6: Provide supportive infrastructure**

The infrastructure/environment in which entrepreneurs operate can be supportive or disruptive. To be supportive the infrastructure needs to be responsive to the needs of entrepreneurs in the local community. Overly bureaucratic systems and repressive directives in the past resulted in excess requirements for paperwork, licenses, customs procedures all contributing to excessive transaction costs which could include outright bribery. All these factors are considered real barriers to the development of an entrepreneurial culture. An efficient private sector requires an efficient public sector.

The establishment of a legal structure supportive of private enterprise and of clearly defined physical and intellectual property rights legislation are fundamental.

One of the critical factors is the open support, and political will for the support of entrepreneurial activities. This support should be clearly demonstrated at the highest level and be translated into action at every level of government.

## **Step 7: Provide a supportive physical environment**

This area is considered to be very important for the development of the private sector in Central and Eastern Europe. In particular, environmental degradation is a barrier to the development of new enterprise (e.g., food processing) and a negative factor in the attraction of foreign joint ventures.

Entrepreneurial promotion and development should not occur at the expense of the environment.

Environmental legislation is both a threat and opportunity to all countries.

Additionally, an appropriate physical infrastructure needs to be in place such as roads, airports, docks, etc. Of particular and increasing importance is the provision of modern telecommunications facilities, reliable power and other utility services

## **Step 8: Implement the policies and changes needed**

Responsibility should be clearly assigned for implementing policies needed to stimulate the effective supply of new entrepreneurs and to facilitate the growth and expansion of existing enterprises.

Wherever possible, services should be available from a single access point, a one stop shop. However, economies of scale might require a hub and spoke delivery mechanism.

The critical ingredients for the successful implementation of entrepreneurial development initiatives are considered to be the following:

- An integrated approach to policy formulation and service delivery.
- The trust and confidence of all key actors on the local economic stage.
- Sound knowledge of the culture and motivation of the local population.
- Strong political backing.
- An investment orientation rather than a grant/subsidy system.

All activities and services provided should be subject to continuous evaluation using quantitative criteria such as cost-effectiveness, impact, and value for money. In addition, these should be subjected to a qualitative, normative evaluation to ensure that programs and policies support non-discriminatory hiring policies, fair labor standards and environmentally sensitive actions.

The remainder of Part II will present some examples of innovative approaches being used throughout the world, including Central and Eastern Europe, to promote entrepreneurship and small enterprise development as part of economic restructuring and renewal. Many of the examples presented in the following chapters address the recommendations made by the Aarhus workshop.

## Chapter 2

# Create business incubators and innovation centers

## Business incubators

In the past two decades, business incubators have gained considerable publicity and visibility as a promising entrepreneurial initiative. They were developed in Scotland in 1978 and are used in the community business movement. They were developed in the U.S. in the late 1970s and early 1980s and are used with community and state government job creation and economic development strategies. The use of small business incubators started as “an economic development method to utilize old buildings and create jobs in local economies hurt by the exit of large industries.”<sup>1</sup> Business incubators commonly offer a package of low-priced space, facilities, and services to new and expanding small businesses. This package is designed to help SMEs bridge the early stages of start-up and innovation when firms are most fragile.

### What are business incubators?

There are two main types of incubators: (1) the community or region-based incubator; and (2) in-company or corporate incubators located within industrial complexes, provided with premises free of charge, and used to help newly conceived ventures. Conditions considered necessary for the development of an incubator are:<sup>2</sup>

- development/existence of a market economy;
- willingness of relevant public and private, profit and non-profit institutions to undertake incubator activity in the framework of mixed ownership schemes functioning through boards of directors; and
- sufficient funds to support the incubator operations; and
- skilled and motivated managers and facilitators who also engage in networking activities.

A variation of the two main types of incubators is the business “incubator-without-walls“ or “virtual incubator.” This type of incubator provides all of the same services as a typical business incubator--except for rental space. Just like ordinary business incubators, incubators-without-

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<sup>1</sup>Tiffany Meyer Haugen, “Getting a Head Start: The Rise of Business Incubators,” *Business Forum*, Winter 1990, pp. 25–27; Candice Campbell, *Change Agents in the New Economy: Business Incubators and Economic Development*, Cooperative Community Development Program, Hubert Humphrey Institute of Public Affairs, University of Minnesota, 1988.

<sup>2</sup>*New Initiatives in Entrepreneurship Development*, pp. 5–6.

walls focus on start-up and early states enterprises, provide shared office support services and advisory services, and have graduation policies

## **Purpose of incubation programs**

The purpose of business incubation programs is to produce successful firms that will leave the program financially viable and freestanding when they “graduate,” usually in two or three years. Thirty percent of incubator clients typically graduate each year.

In order to meet their objectives, business incubators do not provide a permanent home for their new business clients, but rather a temporary environment designed to help clients become financially viable and freestanding before they secure their own space elsewhere at market rates. The purpose of graduation is to make room for other new start-up businesses.

## **Stakeholders in a business incubator and their objectives**

Successful business incubators have a number of stakeholders. These include:

- individuals or organizations that contribute financially to the support of the incubator
- client companies
- incubator managers and staff
- incubator’s governing board
- local business professionals and service providers
- politicians
- administrators
- community activists

Common stakeholder objectives for business incubators and innovation centers include:

- encouraging entrepreneurship through training and assistance to would-be entrepreneurs
- assisting business formation and enterprise development
- creating jobs
- commercializing new technologies from a university or other research institution
- assisting the development and growth of a targeted industry or a certain type of business
- diversifying the local economy
- linking small businesses to larger firms (e.g., by helping establish subcontracting arrangements)
- Increasing the local real estate values and tax base
- developing international trade and export potentials
- generating income and benefits for the sponsoring organization/ company
- encouraging entrepreneurship among a targeted population (e.g., former military personnel, women, youth, minorities, etc.)

## **Why do business incubators work?**

Business incubators work because they minimize the financial risks for small entrepreneurs by reducing the start-up costs, they help them maximize their business opportunities, increase the speed of their learning good business practices, and provide moral support to them.

## **Beneficiaries of business incubators**

There are three main beneficiaries of business incubators:

1. **Entrepreneurs** win by receiving the support and services needed to succeed
2. **The public sector** wins through job creation, expansion of the tax base, the development of commercial and industrial real estate, and diversification of local economies
3. **The general public** wins through employment opportunities and the economic growth of their communities and nation, and the expansion in the availability of products and services in their communities

## **Why establish business incubators in transition countries?**

Why should business incubators be established in transition countries? Business Incubators are a very important economic development tool that is critical in transition economies for several reasons. Business incubators (BIs) are very visible in the community - the BI and its tenants show other people that it is feasible to start up your own business and succeed. BIs are very interesting for municipal management, because an existing building gets renovated, and for the tenants, it is very beneficial because they learn how to work in a different system - the free market system by being in close contact with other tenants and the management of the business incubator.

The business incubators under the UNDP Bulgaria JOBS Project support start-up micro and small enterprises and existing companies that want to expand or diversify their business. The tenant companies can stay in the incubator for a maximum period of 3 years. The main objective of the business incubators is to support the development of the tenant companies until they are strong enough and capable of surviving on their own in the market. The specific activities of the business incubator include: provision of free rental space for businesses at below-market rates; managerial, financial and marketing consultations provided by the experts in the incubator and by freelance experts (international and national); training and qualification courses; facilitated access to financing; office and administrative support, including the use of services and equipment, such as Internet, fax, computers.

Types of businesses that are located in Bulgarian BIs include: sewing companies, car mechanics and car maintenance services, food production and food-processing enterprises, furniture-making companies, high-tech companies, repair of electric appliances, accounting services, production of glass packs, printing services, a funeral agency, etc. Over half of the companies are existing companies and over half are production oriented companies.

## **Business innovation centers**

Business or technical innovation centers are a high-tech version of the business incubator. In the U.S., they are usually associated with a university, and are designed to help local inventors and others in the community or region commercialize new inventions, and nurture the start up of infant companies resulting from work carried out by university research labs and professors.

Innovation centers typically have access to patent lawyers who can help obtain patents, technical services labs to help develop prototypes, and financial advisors to help find venture capital or locate a firm that might be interested in producing or marketing the products or inventions.

The common stakeholder objectives of innovation centers include all of the ones normally included for BIs, plus several additional ones that are unique to this type of center:

- increasing opportunities for joint faculty and industry research
- generating income and benefits for the sponsoring universities/ organizations
- commercializing new technologies from a university or other research institution
- providing real-life learning experiences for university students
- developing a technology infrastructure supportive of high-tech firms
- developing international trade and export potentials for new technologies

## Examples of business incubators

### Scotland: Govan Workspace

In 1978, problems in the shipyards in the area of Glasgow, Scotland, and the widespread unemployment created by their downsizing and impending closures elicited a good deal of concern in the community. The work of a local community “employment study group” created two nonprofit community companies. One was a property company to provide “small scale managed workspaces,” and the other was to provide “practical advice and assistance to individuals and groups willing to set up new businesses.” The property company, Govan Workspace, first converted a vacant school to provide 37 units of between 300 and 600 square feet. Subsequently, they converted 80,000 sq. ft. of a former bakery into small industrial units to be let to small businesses and managed by the company. The Govan Workspace was one of the first community businesses organized in an urban area.<sup>3</sup> By 1987, Govan Workspace had 85 businesses employing more than 400 people, and a number of businesses had graduated to larger premises.<sup>4</sup>

### USA: Experience With Business Incubators

The U.S. launched similar experimental efforts to set up business incubators in unused or abandoned buildings about the same time as Scotland did. Entrepreneurs are invited to take up individual spaces in the incubator facility for a small rental fee, and needed services (telephone, fax machine, secretarial and accounting services, etc.) are available to help them survive and grow until they are ready to leave the incubator and go out on their own. Some incubators have been developed by communities as part of economic development projects and others by private companies for profit.

From a handful of incubators in 1980, their numbers doubled to 140 in January 1986. After 1985, incubators received considerable public support as a result of the Small Business Administration’s research findings that during their first five years 70 percent of the firms launched with incubators succeeded while 70 percent of the small businesses launched without incubators failed. Twelve states subsequently established formal policies and programs to

<sup>3</sup>John Pearce, *Running Your Own Cooperative*, p 34.

<sup>4</sup>Community Business Scotland, *The First Ten Years: A Decade of Community Enterprise in Scotland*, Glasgow, 1987.

support small business incubators, ranging from technical assistance to providing direct subsidies for incubator development and operations. Pennsylvania has 23 incubators, more than any other state.<sup>5</sup> Although most U.S. business incubators have not been operating long enough to determine the precise success ratios for these facilities, Haugen concluded in her 1990 report that “from reports by incubator managers,...the outlook is very promising.”<sup>6</sup>

The growth of business incubators in the United States has continued apace. By 1993, the number of incubators had increased to more than 500. Research on business incubators in the United States also indicates that they are making significant contributions to their local economies, even in hard economic times. Data from a 1991 study done for the National Business Incubation Association show that in a sample survey of 150 incubators, tenants employ an average of 54 persons per incubator, with each facility averaging 12 tenants. Incubators graduated 27.5 percent of their tenant base in 1990. The study also reported that incubator graduates said they provide an average of 85.3 full-time jobs per incubator. Sixty-five percent of the incubators surveyed had opened in the previous 4 years, and they had generated 7250 jobs since their inception. Furthermore, many of them were operating as economic development projects in blighted inner-city and depressed rural areas, most of which were in dire need of jobs.<sup>7</sup>

Other research in the United States has found that 80 percent of businesses cultivated in business incubators succeed, whereas only 20 percent of all business start-ups survive after five years. Part of the reason for the higher survival rate is attributed to “neighborliness” within the incubator. Incubating companies shared equipment and sold products and services to one another—often at cost. Additional research also showed that incubating companies psychologically support one another through the hard times all new businesses face. They also benefit and learn from each others mistakes. The lack of capital is the most difficult problem faced by business start-ups, and business incubators are becoming more adept at assembling coalitions of business, educational institutions, and government sources to raise capital for their tenants. Some are also turning to venture capitalists to help their tenants.<sup>8</sup>

Based on her research in the United States, Haugen suggests that incubator developers need to address five major issues to increase their probability of success:

1. *Careful setting of facility objective.* Sound incubator objectives are critical to their success. For example, Is the objective job creation? High-tech or low-tech firms? More jobs are created by low-tech incubators. Profit or nonprofit? A specific industry?
2. *Determining the tenants to be housed in the facility.* How can they be found? How should they be selected? These questions presuppose a set of criteria to evaluate and admit new tenants. Criteria might include whether they have a business plan or whether they can pay the rent.
3. *Selecting management and administrative services to be made available.* Should management assistance be provided on-site through the incubator or by existing small business advisory services in the community?

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<sup>5</sup>Robert Frick, “Incubators Provide Cozy Starting Site,” *USA Today*, March 12, 1986.

<sup>6</sup>Haugen, “Getting a Head Start.”

<sup>7</sup>“The state of the Business Incubation Industry,” *Research Updates*, Institute for Local Government Administration and Rural Development, Ohio University, March 1993, No. 2; “Alabama Incubator Develops Unique Program for Venture Funding,” *NBIA Review*.

<sup>8</sup>Jeremy Bachmann, “Site Selection,” *Medical Device & Diagnostics Industry*, November 1991, p. 28.

4. *Linkages to capital funding sources.* These are of great importance to new businesses, and an invaluable service which an incubator can provide.
5. *Providing an environment suitable for new business development.* “The facility should be designed so that synergistic energy and experiences can flow between new entrepreneurs...”<sup>9</sup>

A study of business incubators in California found five common problems faced by these enterprises, problems which the authors felt needed to be addressed to strengthen the incubator operations. These are:<sup>10</sup>

1. Lack of a clear statement of goals and accomplishments. “We heard very few actual goals, and even fewer objective appraisals of progress of the incubator,” said the authors.
2. Financial reporting was a key weakness. “Financial information was sketchy. Sometimes it seemed that there were no meaningful books kept for the incubator...and few incubators seem to effectively monitor the financial health of their tenants.”
3. “The business of the incubator is business growth, job creation, tax-base strengthening. One would reasonably expect that statistics such as these would be a normal part of running the business. Yet only a few incubators could provide meaningful statistics to address these issues.
4. “Post-graduation business success is a critical measure of an incubator’s effectiveness. Most of the value to the community comes after graduation, yet none of the incubators seemed to track businesses after graduation.
5. “Most incubators did not closely monitor their tenants’ businesses, preferring a more ‘laissez faire’ approach to incubation. More than one incubator manager said to us, ‘We know the business isn’t doing well if we haven’t seen them in three weeks.’”

**USA: Kitchen Incubators.** One recent development in the United States is the growth of a specialized type of business incubator called the “kitchen incubator.” This form of incubator has proliferated over the past ten years in the United States, especially in rural areas. Kitchen incubators are commercial kitchens that may be rented by micro and small business entrepreneurs to produce their food products for sale in the market place. The kitchen incubators have a full complement of cooking and food processing equipment that can be used to prepare and package a wide range of food products. They may be rented by the hour or the day.

An example of a kitchen incubator is the Bear River Kitchen Incubator in Paradise, Utah.<sup>11</sup> This incubator came about after a regional feasibility study was conducted by the Bear River Association of Governments in 2001. The study concluded that the capitalization costs of setting up a commercial kitchen made new, local food-based enterprises all but impossible to finance. Before an entrepreneur’s recipe could even be produced and test-marketed, it would require an outlay of \$100,000. or more to build the necessary commercial kitchen..

The Bear River Kitchen Incubator began in 2002 under the umbrella of the non-profit organization Sustainable Agricultural Association of the Bear River Area (SAABRA), located in the rural Bear River region of Northern Utah. SAABRA organizers wrote a business plan and proposal, and applied for grants to establish and equip the incubator. They were successful and

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<sup>9</sup>Haugen, “Getting a Head Start.”

<sup>10</sup>“A Whistle Stop Tour of California’s Incubators, *NBIE Review*.”

<sup>11</sup> Pat Bohm Trostle, “Industrial Strength: New Kitchen allows people to prepare food commercially,” *The Herald Journal*, July 27, 2003, p. 6.

subsequently rented and remodeled an old fish cannery in the community of Paradise to house the new kitchen incubator. Today, in July 2003, SAABRA coordinates the activities of the new kitchen incubator, a farmer's market and a newsletter. The incubator offers budding entrepreneurs a place to start their food-based businesses. Clients include a larger firm's Health & Fitness unit that rents the kitchen every morning to prepare lunches and dinners for a new fitness program they are developing and testing. A local wheat grower in the region is using the kitchen incubator to add value to their crop. This grower uses the kitchen to cook up a spiced, popped wheat snack--called "Crops" -- that they package and sell retail throughout the area. The kitchen is used every other weekend to manufacture their new product, doubling their output.

## Getting Started:

## Steps to start and operate a business incubator<sup>12</sup>

Whether it is for profit or non-profit, an incubator is a business. It requires the same planning effort as any other endeavor.

### Step 1: Develop the concept

First, determine the objectives for creating the business incubator. Local leaders and organizers need to answer three basic questions when considering a business incubator:

1. Is the purpose simply to provide a facility to house new and/or expanding businesses or is it to create employment throughout the region by the development of small businesses in and out of the building?
2. Is it to serve retail and service firms or will it be limited to industrial and R&D projects?
3. Can the community support an incubator? The business plan answers this question.

### Prepare a Business Plan

A business plan must be prepared to start an incubator, just as one must be prepared to start any successful business. The business plan for an incubator describes the vision to community leaders and potential backers to secure their support, documents the financial need, allows the organizers to leverage money up front, and provides benchmarks to measure progress when the operation commences.

Questions to be answered in the business plan for an incubator include:

- *What will be the scope of the incubator?* Will it exist just for the tenants or for the entire small business community in the region? Some incubators are contained within larger buildings that house long-term tenants at market rates, thereby subsidizing the entrepreneurial support activities. This approach also lessens many early cash flow

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<sup>12</sup> Taken from National Rural Electric Cooperative Association, A survival kit for those who would start a business incubator. n.d. Additional information on the subject of incubator development can be found in the Incubator Training Manual published by the Economic Development Administration, U.S. Department of Commerce and The Council of State Community Affairs Agencies. Washington, D.C.: November 1988.

problems and permits flexible facilities that can change over time. Having some successful firms in the facility also helps strengthen the marketing efforts.

- *What is the target market?* Who are the best prospects by industry? This is determined by looking around to see what types of companies are already in the community because: (1) local industry trains the managers, technicians and labor force who most likely start and staff the incubator's tenants; (2) the support industries and transportation advantages that created the existing businesses likewise support and benefit new businesses in the incubator; and (3) starting a business is risky. Few compound the risks by relocating families to a new area regardless of the advantages to the incubator. The purpose of incubators is to nurture new enterprises to create jobs and expand community wealth; therefore, many incubators target manufacturers. Manufacturer's best serve this purpose because they generally sell to markets outside the local area, resulting in "foreign" or "new" money flowing into the community. The new money filters to the retail and service sectors. This causes a multiplier effect and generates new jobs and income for others in the community. It is hoped that, over time, an incubator can help diversify local industry. This is encouraged by focusing on businesses that have national and international markets. However, much depends on the local entrepreneurs.
- *How will the facility be marketed?* How can entrepreneurs be reached and attracted to the building?
- *How will a building be acquired?* Can an existing one be used or must one be custom built? What designs and/or renovations are necessary?
- *How will the incubator be staffed?* How many people are needed? What are their job descriptions?
- *What will be the financial needs of the incubator?* What revenues and costs can be expected? What would the budget look like?
- *How will the incubator be funded?* What organizations, grants and loans can provide the necessary financial support?

## **Step 2: Design the governance structure**

After deciding upon and recording the incubator concept in written form, the governing board normally retains the role of fiscal trustee and employer. Some organizations break down the functions into strategic planning, finance and human resources, with committees supervising each of these areas. Whatever the form, it reviews, revises and approves the manager's annual business plans and budgets, thereby delegating the authority outlined in it.

Generally, membership of the board reflects community leadership and funding sources. Once the facility is mature, this body should include some incubator graduates as well.

Normally, the founding organization provides the first governing board; it often precedes the incubator concept and governs finances and policy. A second board or subgroup may be created temporarily to oversee the development and construction of the incubator. Finally, an advisory board is established to screen candidates and serve as a resource to the tenants and manager. Many variations exist, but all the functions must be carried out.

The construction board requires talents different from those of the governing organization. This body discusses construction alternatives and methods with existing incubator staff to avoid repeating major mistakes. Once the building is completed or renovated, this board is disbanded.

### **Role of the Advisory Board**

The advisory board is normally limited to two areas of activity: (1) the approval of new tenants; and (2) final decisions on removal of tenants for failure to meet entrance criteria, lease provisions or published policies. All other functions of the advisory board and its members should be limited to acting as resources and advisors, both to the manager and the tenants. The incubator manager remains the tenants' first contact, handing most problems and concerns, and using the advisory board as needed. The advisory board should consist of professional financiers and business people. Normally, it is better to choose the profession to be represented (e.g., accounting, etc.) and then fill the seat. Terms are staggered for broader community participation and continuity.

Because obtaining capital is a major problem of new businesses, some incubators have established venture capital advisory committees, composed of a small number of venture funds best suited to meet the needs of their clients. By establishing such a committee, incubator managers are able to tap the group's expertise, increase the likelihood of obtaining capital, and have them help evaluate a technology's commercial viability before too many resources are invested in an unmarketable product.<sup>13</sup>

The best incubators are those with the most individually involved board members. They represent the community to the entrepreneurs and vice versa. Board members must be willing to make the rounds and communicate on a regular basis with the tenants.

An incubator is an ever-changing concept. Therefore, periodic turnover of the governing and advisory boards is important to provide new ideas and enthusiasm and to prevent unrealistic biases for or against certain industries from developing.

### **Step 3: Obtain start-up funding**

Once the concept is developed and the incubator plan is completed, research should be undertaken on available government, NGO, and foundation grant and loan opportunities. The possibilities for funding and obtaining facilities and premises should be discussed with local economic development departments and programs in the region and community to see if any small business assistance may be available and if a building can be made available to house the incubator. Consider linkages with local or regional educational institutions (such as small business development centers) that can put funds in their programs and benefit the incubator and its tenants.

Based on the group's efforts and business plan, they should know what funds need to be raised locally. Local and regional governments should be supportive of the incubator because they reap additional employment and taxes once the entrepreneurs generate new jobs. Also, banks profit from business loans as well as mortgages and consumer loans made to new employees.

As noted above, some industries have donated vacant buildings for incubators because they have a concern for the community. Others have purchased or leased buildings at below-market-rates for similar reasons.

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<sup>13</sup> "Alabama Incubator Develops Unique Program for Venture Funding," *NBIA Review*.

Starting out debt free is a worthy goal, but it is more likely that some mortgage debt will be necessary to reserve cash for early operations. The financial projections in the business plan are a very useful guide.

#### **Step 4: Find suitable premises and facilities**

There is an image-versus-viability trade-off between new construction and renovation. Balance the need for a good first impression against the high cost of nonproductive common space. Generally, the economic viability of the incubator requires the use of existing or renovated premises and the presence of other firms to share the rent. As a multi-tenant facility, the chances of at least breaking even are greatly increased. Furthermore, by using a vacant facility, the community is returning a facility to a productive state and perhaps encouraging other developers to do the same.

It is possible to renovate only part of a building as an incubator, and use the rent from each successive tenant to prepare the building for the next. Rather than installing new wiring, heat, and other costly improvements at the outset, install individual units or zone systems whenever possible. Successful incubators keep shared common space to roughly 10 percent of total area. As more common space is needed, rental units are reclaimed.

#### **Step 5: Hire and pay a staff**

Obtaining good staff to run the incubator is critical to its success. Past experience in the USA suggests that prior business start-up experience is the single most important characteristic for incubator managers. That is, entrepreneurs make good managers because they have had hands-on experience to assist the tenants and can better understand them. The hiring of such people gives life to the entrepreneurial concept. Staff also needs expertise in such areas as real estate, small business management, marketing, counseling, financing and building maintenance.

Previous experience in preparing and using business plans is also important for incubator managers. The lack of such experience often leads to decisions based on immediate or short-term needs at the cost of long-range planning and difficulty working in the planned, structured environment of a board-governed incubator.

A business incubator manager should place service to tenants as the highest priority. Such managers successfully:

- remove unnecessary nuisances which distract business owners
- market the facility
- collect rent and service fees
- set and meet realistic budgets
- encourage and participate in personal interaction and networking
- sacrifice time and bureaucratic efficiency to assist when necessary
- keep tenants informed of educational and marketing opportunities
- provide sound advice
- make sensible referrals
- make community contacts which advance the tenants' prospects (press, professional community, educational institutions, funding sources)
- create a proper image for the concept and facility in the community; and

- cooperate with the governing and advisory boards

When a manager of a new incubator takes control, the incubator will probably be real-estate driven. The incentive and challenge is to organize the operation and fill the facility.. However, over time an entrepreneurial manager needs to be compensated by matching bottom-line achievement and performance. Salaries for incubator managers are set at an appropriate level for the surrounding local area and community.

In addition to the manager, a new incubator needs a very good receptionist, someone who is outgoing, friendly, unflappable, and capable of providing assistance to the tenants in the absence of the manager.

## **Step 6: Market the incubator**

The purpose of the incubator is to identify and assist potential entrepreneurs. This means searching for people who have viable ideas. Seminars on subjects of value to start-up firms—“How to secure funds to start your business,” Business record-keeping,” etc—are the most effective method to identify these people. By holding seminars and workshops at convenient times (nights, weekends, etc.) at the incubator facility, for maximum exposure, working prospective tenants can attend. Using credible presenters and charging a small fee encourages the attendees to be serious and prepared to learn.

Approaches to market the incubator and its tenants include: making presentations and speaking at local organizations; maintaining contacts with community professionals and financiers and reminding them of the excellent resource available to small businesses; opening the incubator office to potential clients in the evening or on weekends; and contacting the local media for coverage.

### **Flexibility Is Important**

Because a new business incubator is a real estate-driven operation, flexibility is important at the outset. It can become more selective once the cash flow is adequate. The facility also can promote employment training programs and other adjunct activities.

Each incubator is a community experiment, and the first year is a learning experience for both parties. During that time, the board should analyze the relationship and determine if it has lasting value.

## **Step 7: Establish leases, policies and rents**

The purpose of the incubator is to assist local start-up businesses. However, a written operating policy and a strong lease protect against possible abuses. The language should be worded to say to entrepreneurs that, “We are here to serve you.” All applicants sign the operating policy, signifying that they have read it and understand the operating rules.

Policies should be implemented as flexibly as possible and grandfather all revisions to protect those who bore no blame in overlooking a loophole.

### **Business Plans**

Just as the incubator must have a business plan, every applicant for tenancy should be required to have a business plan. The business plan is the application for acceptance into the incubator by

the advisory board. Also, it has great value when approaching banks or other investors. Because the planning process is new to most entrepreneurs, the manager and the incubator management assistance team should help them.

### **Choosing Among Applicants for Limited Space**

If limited space makes it necessary to choose between applicants and tenants, it is important to solidify the incubator's commitments to existing tenants. Those who can prove they need to expand should be given priority over all approved applicants regardless of how attractive they may be.

When choosing between applicants, list and weigh the criteria established for tenants to prioritize applicants. Typical criteria might include:

- job creation (double weighted)
- level of technology (double weighted)
- product driven vs. service driven (double weighted)
- financial and managerial strengths
- benefits from incubator services
- other criteria (women-owned, etc.)

### **Renewing Leases and Reviewing Tenants**

Some incubators require all tenants to submit regular financial statements; others consider that practice an invasion of privacy. In either case, each tenant should be reviewed before renewing a lease. The review should confirm the manager's impressions gained through regular communication.

### **Setting Rental Rates**

Rental rates should be based on community norms. Yearly increases in rents are popular because they reflect the growing ability of the entrepreneur to pay. Several incubators extend this sliding rent scale indefinitely, allowing the tenants to decide when economics warrant graduating into less-expensive space.

### **Expansion of Tenants**

The expansion of tenants is a timely decision and should be made by the entrepreneur, the manager and possibly the Advisory Board members. After an entrepreneur's business idea passes the criteria of the Advisory Board, an entrepreneur can become a tenant.

### **Handling Leasehold Improvements**

Alterations are made at the tenant's expense, but they must be approved in advance and conform to local building codes. Entrepreneurs are resourceful, and some try to install the wiring and plumbing themselves if not monitored.

### **Exit Policy**

A flexible exit policy is best. Businesses grow at different speeds, and applying one policy to all does not provide the support entrepreneurs need. Most incubators beginning with a fixed-term (often three years) exit criterion, have found the Advisory Board (the ultimate responsible party to decide what is in the community's best interest) extending leases for a multitude of valid reasons. The open-ended, increasing rental structure described earlier, is perhaps the most flexible and, therefore, workable.

### **Handling Rental Delinquencies**

Delinquencies should be handled firmly but flexibly. Retain the right to exercise all legal options, but permit review by the Advisory Board. An incubator does not serve tenants by protecting them from reality.

## **Step 8: Determine services to be provided**

### **Basic Services**

Almost every small business incubator offers a set of basic services— photocopier, facsimile machine, conference room and shared receptionist. Most also make available 24-hour secure facilities, computer access, trash removal and mail sorting.

### **Physical Services**

Physical services that might be provided include:

- a forklift and/or hand truck
- on-site temporary storage
- audiovisual equipment
- small business library
- a sophisticated telephone system
- They all add to the value of the space.

It is also possible to add some of the features of a “common facility center,” discussed previously, by providing a fully equipped and staffed machine shop in the facility. This in-house supplier may be essential to production companies targeted by the incubator. University based incubators also offer access to laboratory facilities, research libraries, graduate students and faculty.

### **Additional Services**

Among the additional services that could be offered are a notary public, overnight mail, booking and collections. Additional services differ depending on the source—a university innovation incubator and non-profit economic development and for-profit entities.

The incubator should create a support network of professionals whom tenants can consult. Many community bankers, attorneys, accountants and consultants seeking clients may be willing to offer pro-bono and reduced fees to new businesses. If the incubator is located near a college or university with a business school or small business development center, training and consulting services might be made available to the tenants at modest cost.

### **Structuring Fees for Services**

Paying for services available to incubator tenants can be handled in a number of ways. For example, including a minimum level of services in the rent or charging for services on a per-use basis.

### **Intangible Benefits From Incubators**

The most beneficial intangible is the technical and moral support that the entrepreneurs provide one another. Tenants share ideas, technologies, customers and even failures and strengthen each other in the process.

The incubator screening process bestows credibility. Accepting an entrepreneur into the incubator announces to both the financial and business communities that the entrepreneur has a good business idea. This is good advertising and important to venture capitalists.

Well appointed, attractive facilities and common areas also help to create a positive image. As a result, prospective customers and vendors consider the tenants to be successful.

The media recognize successful business ventures. Few entrepreneurs can obtain media coverage on their own.

## **Step 9: Establish good tenant relations**

The incubator staff is responsible for creating a positive climate for the tenants. Tenants are the hope for future employment in the community and local economic development. They are the best marketing tool, especially in the early years. If they feel that the incubator management has (or has not) kept its promises, they will tell others.

Developing a climate for successful networking among tenants is important. Normally, little interaction occurs between tenants until the facility is 30–40% full. As the facility fills, tenants provide one another with technical, marketing, management and personal support.

The incubator management should avoid getting involved in disputes between tenants and being a credit reference for them.

Experience suggests that incubator managers should not admit partnerships as tenants unless the partners provide them with a written agreement in case of dissolution and rent guarantees.

## **Step 10: Graduate tenants**

Incubator managers should recognize that the process of maximizing business and job creation includes replacing enterprises that mature and graduate with new enterprises. However, inertia may cause tenants to postpone moving. Therefore, it is necessary for the incubator management to give tenants a helping hand (a gentle push) to move when the time comes.

If the local area has an industrial development corporation, the tenants should be introduced to the industrial development specialists who can help them find new premises outside the incubator. If no specialist is available, the incubator manager should assume the role of liaison among the tenants, realtors and builders to assist the tenants in relocating.

It is important to continue to visit the incubator graduates. They are an important part of the incubator's success and should be treated accordingly.

## **Sources of additional help**

As part of the CER component of the USDOL/WSI integrated adjustment program projects, international experts on business incubation are available to conduct workshops and provide training materials to train local Industrial Adjustment Specialists and help Community ER teams that want to establish a business incubator as one of their ER projects. These experts and resources can be accessed through the USDOL/WSI country project office.

## Chapter 3

# Create micro and small enterprise capital lending programs

Although no one questions the validity of the proposition that finance and other support services are important for successful entrepreneurship and small enterprise development, there is considerable disagreement over the precise meaning of that proposition. The same can be said about obtaining capital for micro and small enterprise development.

There is general agreement that in most developing countries and the newly emerging democracies of Central and Eastern Europe (even in industrialized countries) existing sources of capital and support services are insufficient or not readily available to foster the creation and expansion of micro and small enterprises. But there is considerable disagreement about the causes of the capital shortages, the types of services micro and small enterprises need and appropriate solutions to these problems.

A number of reasons have been identified to explain why small enterprises have experienced difficulty in obtaining access to credit from the formal banking systems. These may be categorized as follows:<sup>1</sup>

1. *Lending to small enterprises is perceived as being risky.* The uncertainties that face a small industry, the high mortality rate, the susceptibility to market changes, and to economic fluctuations, make banks reluctant to deal with these clients. Non-payment, or even delayed payment, by a few major clients can cause the collapse of a small business.
2. *Borrowing from banks is difficult and burdensome.* Parallel to the reluctance of banks to lend to small enterprises is the reluctance of these enterprises to borrow from banks. The administrative and costly formalities of obtaining bank finance, particularly the time and paper work involved, are a formidable deterrent to smaller businesses. Some owners lack the formal education to cope with the bureaucracy and others, compounded by problems of location and time pressures have difficulty in complying with what the institutions require before they grant a loan. In many cases, potential borrowers have to pay for preparation of accounts or special studies on top of the costs involved in the numerous visits to the lending institutions. The transaction costs on the part of a borrower in obtaining a loan from a bank may be proportionally as high as are these costs for the lender.
3. *There is a distinct institutional bias on the part of banks towards lending to the larger corporate sector.* In many cases there are links in directorships, joint ownerships and various other common financial dealings between banks and the large enterprises and automatically this induces preference for directing finance to these borrowers.

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<sup>1</sup>Jacob Levitsky, *Innovations in the Financing of Small and Microenterprises in Developing Countries*, Entrepreneurship and Management Development Branch, ILO, Geneva, 1993, pp. 6–7.

4. *High transaction costs.* The administrative costs of lending to small enterprises are high, which cuts deep into the profitability of such transactions for lending institutions. This is undoubtedly the case and has been borne out in studies.
5. *Inadequate records and documentation.* Small enterprises are unable, or unwilling, to present full accounting records and other documentation called for by banks. In most cases such records just do not exist, making appraisal of loan applications difficult.
6. *Lack of collateral.* Usually such small borrowers are unable to provide the collateral and security demanded by lending institutions before approving loans.

These are real problems, and they must be dealt with if the small business sector is to be nurtured.

During the past two decades, a number of innovative developments have occurred to overcome these problems and provide support services and financing for microenterprises and small businesses. Among the most promising are specially designed microenterprise lending and development programs, credit cooperatives, and capitalizing self-employment through unemployment insurance (UI) benefits. Though some of these microenterprise programs originated in developing countries, they have been successfully transplanted into industrialized countries of the EU and North America.

## **Microenterprise lending and development programs**

After decades of funding relatively ineffectual programs of providing credit to poor people in developing countries, based on the notion that the poor cannot pay the real cost of credit and that the poor cannot save, international donors began reassessing their efforts. What has emerged since the 1970s is a “commercial approach” to providing credit and savings services to the entrepreneurs in the informal sector.<sup>2</sup>

Problems with obtaining capital to start enterprises have not been limited to developing countries. In industrialized countries, obtaining capital for micro and small enterprises has been equally daunting over the years even though a variety of government programs were supposed to make credit more readily available to small businesses and would be entrepreneurs. Consequently, in the 1980s, a number of innovative financial initiatives have been undertaken in EU countries and North America to broaden the availability of credit for new enterprise creation to additional individuals and groups, especially the unemployed, poor people and women.

Although there are many more approaches for obtaining credit for entrepreneurship, because of space limitations only five—self-employment and microenterprise development; microenterprise lending; small business leasing, capitalizing self-employment through UI benefits; and credit cooperatives—are discussed.

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<sup>2</sup> H. R. Jackelen, “Toward a More Market-Oriented Approach to Credit and Savings for the Poor,” in *The ILO and the Financial Sector: Small Financial Mechanisms in support of Poverty Alleviation, Enterprise Promotion and Self-Reliant Development*, Geneva, ILO, 1992, p. 30.

## **Self-employment and microenterprise development programs**

Persistent high levels of unemployment, increasing poverty and a widening gap between the rich and the poor in developing as well as industrialized countries have created a renewed sense of urgency on the part of policymakers, government officials and local economic development agencies to find new approaches to employment creation and poverty alleviation. Structural changes in industrialized countries are causing many workers to lose once secure jobs, and they are unable to find new jobs with the skills that they have. In addition, many workers with jobs are unable to earn sufficient income to provide for their families.

Economic distress and declining employment options are causing many people to turn to self-employment and the creation of microenterprises. Today, microenterprises appear to be an important option for many of the unemployed and working poor in both developing and industrialized countries. Indications are that these businesses are providing much needed income to a portion of the population that is becoming increasingly marginalized from the mainstream economy.

Because of the pervasiveness of microenterprises in the informal economy in developing countries and their perceived importance to employment and enterprise creation in all countries, governments and nongovernmental organizations in both developing and industrialized countries have initiated microenterprise development programs (MDPs) to promote entrepreneurship through microenterprise development.

An MDP is generally defined as a program run by a nonprofit organization that provides any combination of credit, technical assistance, training and other business and personal assistance services to microentrepreneurs. The technical assistance services are generally business-related and include instruction in preparing a business plan, marketing assistance, cash flow preparation and other subjects. Some MDPs also offer personal effectiveness training in such areas as self-esteem and financial management. As noted in this section and the following section on microenterprise lending, many of these programs contain both a training and lending component. A wide variety of MDPs have been developed in both developing and industrialized countries. A 1992 survey in the United States identified 108 MDPs operating there.

### **USA: REAL Enterprises<sup>3</sup>**

REAL Enterprises is the brain child of a North Carolina rural education specialist who developed the concept of bringing classes in “school-based enterprise” to rural high schools in several southern states experiencing declining rural economies and populations. It is now being used in North and South Carolina, Georgia, Mississippi, New York, Ohio, Oklahoma, South Dakota, West Virginia, Vermont, Wisconsin, Washington, and Wyoming. An urban model of REAL is also being used in Cambridge, Massachusetts. The success of the program has led to its use in the United Kingdom and Eritrea, East Africa

“REAL” stands for Rural Entrepreneurship through Action Learning. It combines the belief that children learn better by doing with the idea that successful rural economic development requires an investment in local entrepreneurs. A REAL Enterprises class challenges

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<sup>3</sup> Taken from 1994 briefing packet of materials provided by REAL Enterprises, Athens, GA

students to think and act in new ways. In REAL enterprises classes, students must solve “real world” problems, without a textbook and without predetermined right and wrong answers.

The REAL Enterprises model is designed to invest in local communities through the high schools by teaching students how to become entrepreneurs and create their own jobs. One of the objectives is to provide students with an alternative to going to the big city for jobs and to bring about changes in their own communities. The logic behind the program is based on two fundamental precepts: first, that a large number of students have the potential to be entrepreneurs, and second, that many students do not perform well unless they have learning activities based on experiential activities and experiences designed to guide them through the learning process.

Research in the U.S. found that at the time of entry into primary school 22–25 percent of the students indicate entrepreneurial qualities. However, by the time those same students leave high school only 3–4 percent reveal entrepreneurial qualities. Additionally, educators have noted that many students, although well endowed, do not perform well in traditional schools or training programs arranged by traditional schools.

Based on these findings, REAL Enterprises developed an Experiential Learning Cycle that features experience, reflection, expansion, and application. The cycle begins with learners actively participating in a concrete experience, an event or exercise. Next, the learners reflect on the experience, focusing on what happened, how they felt about it, and why the experience was/was not valuable and educational. After reflection, the learners expand on the original experience by identifying the abstract ideas, theories, and principles behind it. This step may include research, lectures, reading on related topics, analysis, and hypothetical application. The learners complete the cycle by transferring their newly acquired knowledge and skills to situations in the “real world.” This stage involves application and active experimentation. The REAL Entrepreneurship model uses this experiential learning cycle to combine entrepreneurship training in school with active application in the community.

The REAL Enterprises model has been successful for both young entrepreneurs and economic development. For example, students in a rural school district in Rothsay, Minnesota, took over the operation of the town’s only hardware and lumber store when it closed in 1988. Initially, it gave the students an opportunity to study a real enterprise. Now, as a result of the students’ hard work and knowledge, the thriving store serves as a working classroom for students in both the local community and nearby towns while it fills an important niche in the local economy.

The objectives of the REAL Enterprises program are to:

- Develop entrepreneurial skills and foster new business creation among students
- Establish experiential entrepreneurial courses in rural high schools, vocational schools and community colleges
- Prepare students to be job creators
- Encourage partnerships between school systems, local businesses, and community groups

How REAL works:

- School instructors teach entrepreneurship and small business management courses for credit
- Course work merges with a business development project

- Throughout the process a “Community support team” made up of business leaders and other interested individuals provide assistance to the student entrepreneurs and teachers
- The final product is a viable business plan to present to a bank or other lender to obtain funding
- Students open their businesses with the aid of their school and REAL Enterprises

State REAL Enterprises offices provide curriculum materials, technical business assistance, on-site support, instructor training, evaluation, and a revolving loan fund (available in a few states). Today, a computer network system, SERVE-line, helps users to communicate with other users and share their opinions, questions and announcements.

REAL Enterprises benefits—they:

- Create employment and tax revenue
- Contribute to work force preparedness by developing critical thinking skills, communication skills, technological knowledge and personal empowerment
- Increase the relevance of school to youth and adults
- Promote growth and opportunities in rural communities.

### **USA: Self-Employment Learning Project**

The dramatic expansion of microenterprise development programs in the United States has resulted in the funding of The Self-Employment Learning Project (SELP) to track and evaluate the experiences of five such programs in rural and urban areas of Arizona, Iowa, Arkansas, Illinois, and North Carolina over a three-year period.

These programs are targeted at low and moderate income people, including women and minorities, and provide one or more of the following three types of services: (1) *financial support* for microenterprise creation (a) directly through group savings and group lending programs, (b) directly through individual lending, and (c) by helping groups and individuals obtain loans from banks and other lenders; (2) *technical assistance* in the form of peer support, individual business counseling, mentoring, business training courses, self-employment workshops, networking and exchange; and (3) *nonbusiness support services* in the form of child care, transportation and family development which is usually provided through other public agencies.

So far, the results of the MDPs in the U.S. have been good. During the first year of the project, microentrepreneurs in the five projects created 255 start-up businesses, and credit or technical assistance to the owners of established businesses (operating for more than six months) created an additional 514 jobs. A total of 113 non-owner jobs were created in businesses that received program services. Cumulatively, these five programs had served 2,288 clients, and 874 of them received loans. In addition, 753 clients participated in a savings program. The average loan size ranged from \$1,438 to \$8,774, with an average term from eight months to three years. Most of the clients assisted by the SELP agencies had very low incomes, 47 percent were below the poverty line, and most of them provided services or sold goods in their local communities.<sup>4</sup>

### **Microenterprise lending programs**

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<sup>4</sup>1992 Microenterprise Briefing Packet, Washington, D.C.: The Aspen Institute.

### **Bangladesh: Grameen Bank**

The Grameen Bank in Bangladesh is the most famous example of “banking for the poor” and has had substantial impact on the role of credit in providing assistance to the poor. The bank was started in 1976 by an economist with a Ph.D. from an American University who wanted to help the poor in his country. The bank has expanded from 60,000 borrowers in 1983, its first year as a registered bank, to over 800,000 borrowers.<sup>5</sup>

Today, Grameen disburses over US\$100 million a year and has generated over US\$25 million in member savings and shareholdings. With a forced savings program (through loan deductions), as well as weekly savings obligations, the effective annual interest rate for a loan is 24 percent. Grameen lends money on an unsecured basis using five person group guarantees, meaning that each individual is responsible for the others and future access to credit is determined by all members repaying their loans. The size of Grameen loans ranges from US\$10 to US\$160 with an average size of US\$60.<sup>6</sup>

According to a report by a United Nations Development Program (UNDP) official, the Grameen Bank is not a profitable bank due to the high cost of funds and overhead, but it breaks even as a result of the subsidies donors make by advancing funds prior to loan disbursement (allowing it to earn substantial interest on deposits) and by charging a low rate of 2–3 percent per annum on loans to the bank. Nevertheless, the Grameen Bank has maintained a 97 plus percent recovery rate, compared to the 10 to 30 percent recovery rate of other banks using secured credit in urban and rural areas. Thus, Grameen “may be considered the least subsidized and most commercial bank within the distorted banking environment of Bangladesh.”<sup>7</sup>

### **Indonesia: Bank Rakyat Indonesia (BRI) Unit Desa System**

Although less well-known, the Government initiated BRI Unit Desa system of Indonesia “is a far larger example of successful institutions capable of lending small amounts of credit and capturing small amounts of savings.”<sup>8</sup> The Unit Desa bank has over 1.8 million borrowers, and in 1989 the range of loan size was US\$360, with 80 percent of all loans granted in the US\$100 to US\$500 range. In 1989 the BRI had savings of US\$460 million, representing over 6,600,000 savers with average deposits of US\$70. Although originally started by the Indonesian Government from a failed agricultural credit program for rice farmers, in 1984 the Unit Desa bank became a bank designed to lend to small off-farm productive activities at higher than commercial rates of interest. From being heavily dependent on loans, the BRI system “has evolved into a self-financing system through its profitability and successful savings mobilization.”<sup>9</sup>

### **Bolivia: Prodem**

Prodem, a smaller and more recently created bank in Bolivia, was organized with US\$5 million in capital by the Interamerican Investment Corporation and the Calmeadow Foundation in 1987. It now has 20,000 borrowers. Prodem charges a rate of interest between 10 and 12 percent per

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<sup>5</sup>H. R. Jackelen, “Toward a More Market-Oriented Approach”.

<sup>6</sup>*Ibid.*

<sup>7</sup>*Ibid.*

<sup>8</sup>*Ibid.*, p. 31.

<sup>9</sup>*Ibid.*

annum above the commercial rates in Bolivia and has generated savings equivalent to one-third of its loan portfolio solely through a forced deduction on loans. It has disbursed some US\$13 million in lending since its inception and has achieved a nearly 100 percent recovery rate. Like the Grameen, Prodem operates predominantly with five person groups, but lends to larger businesses (with loans up to US\$1000) on an individual basis.<sup>10</sup>

### **USA: Microenterprise lending**

During the past decade microenterprise lending programs in the United States have expanded dramatically. For example, in 1992 a directory of microenterprise assistance programs listed 108 such programs. Fifty-eight of these programs offered credit; and of these, 13 percent used a group or peer-lending methodology similar to Grameen and Prodem. Other programs offer loans to individuals that are secured by the borrower alone. Micro loans are generally under \$10,000 in size; average loans range from \$511 to \$10,879. The reported average loan size was \$5,640, and, for one third of the microenterprise assistance programs, the maximum loan size was \$5,000. The average range of loan terms is from one year to 4.75 years, and most programs charge market rates of interest on micro loans. Loans are generally secured by nontraditional collateral, flexible collateral requirements or group guarantees.<sup>11</sup>

### **USA: Working capital**

Organized in 1990 and located in Manchester, New Hampshire, Working Capital is an innovative microenterprise lending program to provide credit to low-income self-employed people through community organizations. Groups of four to ten self-employed community members form business loan groups which review and approve loan applications and meet regularly to exchange information and ideas. In addition to capital, members benefit from peer support and information shared in their business loan groups. Members receive their first loans after they complete a five meeting training course which typically takes one month. All group members must be current on their loan payments before any member can gain access to larger loans.

Between September 1990 and March 1992, twelve local agencies in the New England region had completed their training and were implementing Working Capital in the field. Thirty "enterprise agents" had been trained for these local organizations, and by July 1992 twelve of them were spending one-quarter of their time on Working Capital activities. They had organized 43 business loan groups, each averaging five members. Through May 31, 1992, Working Capital had made 221 business loans totaling \$130,500. The average loan size was \$680. At that time, the default rate on the loans was 4.5 percent.

Of the Working Capital loans thus far, 59 percent have gone to people with "very low income," 35 percent have gone to "low income" people and 6 percent have gone to workers with incomes higher than the federal Department of Housing and Urban Development guidelines for low income. Women own 48 percent of the businesses; and the average age of all business persons was 40. The medium business age of Working Capital borrowers is two years. For 45

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<sup>10</sup>Ibid.

<sup>11</sup>"Definitions," *1992 Microenterprise Briefing Packet*. Washington, D.C.: Self-Employment Learning Project.

percent of the borrowers, the business provides three-quarters or more of their income. Only 5 percent have ever had a bank loan for their businesses.<sup>12</sup>

A survey of 137 business loan group members using Working Capital in June 1993 found that nearly all program participants had stayed in business and their businesses improved significantly. The study also found that while creating jobs was not a major objective of the program, there had been a 75 percent increase in the hours of paid employment and a \$342,000 increase in yearly income per 100 businesses through increased profits and employment. Finally, the participants viewed the business loan groups (basically a rudimentary form of interfirm cooperative network) as important organizations “that are effective in dealing with a range of issues,” and enterprise agents are important to the successful promotion of these groups and to providing technical assistance to them.<sup>13</sup>

### **Poland: Rural microenterprise lending**

A successful example of microenterprise lending in central and eastern Europe is the Women in Rural Enterprise Development Program (WREDP), started by Elzbieta Dec in 1991 under the Foundation for the Development of Polish Agriculture. The WREDP, which was modeled after the Women’s World Banking prototype that funnels credit to women outside normal banking channels, set up a revolving micro-loan fund to aid women who wanted to become entrepreneurs in rural Poland. It was funded with US\$1 million from the United States and German governments. The Polish WREDP makes about 100 loans a year to rural women, averaging US\$3,000 each, with interest payments between 28 to 38 percent, “depending on the number of jobs to be created and on the risk,” according to founder Dec. The WREDP also provides business courses to more than 600 women each year. The courses help them learn financial spread sheets and other basic business skills. About 20 percent of the women who have taken the business courses have obtained loans from banks or started their own businesses without using WREDP’s money.<sup>14</sup>

An example of the success of the WREDP is Maria Szymanska. She borrowed \$1250 from the micro-loan fund to open her community’s first fast-food cafe in September 1994. The enterprise was such a success with the local residents that she was able to repay the loan in six months. For the previous fourteen years Maria and her husband had made their living farming four hectares of wheat and vegetables and growing flowers. But rising coal prices made it hard to heat the greenhouse and feed their family. Initially Maria wanted to start a flower shop, but decided instead to start a cafe. They cater to families, serving fries, flaki, kielbasa, pizza, chicken, hamburgers and homemade borsch. The gamble paid off. At a cost of US\$4,200 to build and equip the cafe, they now serve about 200 people a day, nearly all from the town of Stare Pole, a community of 3,000. The family clears about \$500 per month on their fast food cafe. Other entrepreneurs have borrowed money from the WREDP micro loan fund so start bed and breakfast establishments, feed geese, package vegetables, rent out farm machinery and distribute animal feed. Loans have been made for “whatever is sensible and based on a business plan and credit application plan,” according to Dec.<sup>15</sup>

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<sup>12</sup>“Working Capital Overview: The First Eighteen Months,” Manchester: Working Capital, nd, pp. 1–3.

<sup>13</sup>Jeffrey Ashe, *Microenterprise Assistance and Development: Working Capital and its Impact on Self-Employed Businesses and the Community*. Cambridge: Working Capital, July 1993. Annex, pp. 1–8.

<sup>14</sup>Peggy Simpson, “Banking on Small Business,” *Warsaw Business Journal*, March 17–23, 1995, p. 1-4.

<sup>15</sup>*Ibid.*

The success of programs like WREDP and the need for additional small business lenders has led to the creation of several new programs. In 1994, the Polish-American Enterprise Fund (PAEF) created a US\$20 million Fundusz Mikro. After a rocky start, the Fund has been screening loan applications from Polish-American business clubs in the Warsaw region. In January 1995, the PAEF board agreed to spend this year testing five small-loan approaches that have worked well elsewhere. Based on the experience the successful approaches will be expanded across Poland in 1996. The experiments will include co-financing with a credit union and modernized cooperatives; underwriting a group-lending project like the Prodem approach in Bolivia; and financing a “village banking model,” where a town becomes the legal lending entity and elects a loan committee to decide who gets loans. Peer pressure in the village-banking model has a 100 percent repayment rate so far in a new Albanian program. The fifth operation, which will operate in Krakow, will make loans to individuals with cosigners from their community. This is similar to a program being operated in Bulgaria, which in turn is based on the Accion lending model from Bolivia. Under these test programs, the Fundusz expects to make about 300 loans, of between US\$40 and \$12,000.<sup>16</sup>

## **Conclusions about microenterprise lending**

One expert who has had extensive involvement with microenterprise lending programs in developing countries has concluded that they are important to entrepreneurship promotion. Recent experiences in the U.S. with organizations such as Working Capital also affirm that most of the conclusions also apply to industrialized countries. The conclusions are:<sup>17</sup>

- The poor can afford unsubsidized credit.
- The poor can save.
- Small loans reach the poor even when the banks do not necessarily focus on the poor, as in the case of Prodem and BRI. The important issue is to ensure that small loans (and savings services) are granted efficiently.
- When given access to financial support and other basic business assistance, the poor can become successful entrepreneurs.

Additionally, these cases have demonstrated that success is achieved when:

- Services are located in close proximity to the client.
- The bank makes character-based assessments and uses pragmatic concepts of collateral.
- Documentary requirements are kept simple.
- Repayment terms are simplified.
- An extremely rapid and decentralized approach approves the loans

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<sup>16</sup>Ibid.

<sup>17</sup>*The ILO and the Financial Sector*, p. 32.

# Using revolving loan funds as part of the CER Component in Central and Eastern Europe

Several of the communities participating in the USDOL/WSI CER Component in CEE countries have opted to create local revolving loan funds to facilitate the startup and expansion of small businesses. Following are two examples from Romania and Bulgaria.

## Creating a Local Revolving Loan Fund in Medgidia, Romania

These financial support activities have been an important part of the Labor Redeployment Program in Romania. At the request of some community teams, the USDOL/WSI National LRP Project Office arranged for an international consultant to come to Romania and help those communities that wanted to develop a loan fund as one of their CER projects. The following material, taken from a report prepared by the Medgidia, Romania, Community ER Team provides an example of how a revolving loan fund has been initiated and used as part of their CER activities.

It all started with the decision of the community of Medgidia to create a Community Economic Renewal project that would give access to capital to:

- small or medium enterprises;
- authorized individuals or family associations;
- displaced workers.

The "Local Revolving Loan Fund" Project" started with the development of a set of Operation Regulations by all the project partners: The Town Hall of Medgidia, AJOFP - Constanta, A.S. C.S.D. Foundation, CCINA - Constanta. The Regulation established the analysis and crediting criteria for potential applicants and the membership of the Credit Committee.

### **Businesses assisted during pilot phase by the Medgidia Revolving Loan Fund**

Among the first beneficiaries of the Local Revolving Fund Loan was BEIRA CONS SRL, with civil engineering as the main object. The credit was used to purchase a cement brick production line, as you can see in the picture on the right. BEIRA CONS SRL intended to produce them internally so that it could reduce the costs incurred for their purchase from other companies.

**Cement block manufacturing firm.** Although the market for these products is saturated by too many producers, BEIRA CONS SRL has managed to demonstrate that integrating the production of cement bricks in the company makes good business sense. Moreover, by diversifying its activity the company increased its turnover, created two new jobs and managed to repay the credit well in advance.

The employer, encouraged by the success of this business and by the easy access to the financing source, also indicated that he wanted to expand his current business. He has expressed his intention to apply for a new loan. As usual, the credit officer first waits to see if the

new business is viable, according to the business plan, and only if he/she thinks so, the Credit Committee will decide whether or not it will approve the loan

**Video production business.** Another company that was financed by the "Local Revolving Loan Fund" is POP STAR SRL. The loan amounted to 1,000 USD and was used to purchase a new video camera. The owner's hobby is pop music, as the company's name indicates, but he is also a very good reporter. At present, he is carrying out two types of activity: he sells audio and video cassettes and he produces video films at various social, cultural or family events. The employer has managed to demonstrate the sustainability of his business, and has increased his turnover and created a new job.

The indirect effect of the financing of this company is the existence of a local professional reporter who contributes actively to the promotion of various events that take place in the community. One concrete example is the video of the events organized for the Days of Medgidia

**Bread baking business.** The owner of Spicul Soarelui SRL had a mill that produced a very good grade of flour, and had a shop where he sold food products, but he needed a bread manufacturing line. He obtained the financing he requested from the Local Revolving Loan Fund and his idea has become reality. Now he can produce and sell bread, thus ensuring a basic product for a large number of inhabitants in the district of Medgidia. In less than two months he created five new jobs and added value to the flour he grounded in his own mill. What else does he want? Now he wants to continue expanding and diversifying his business!

**Producer of "Turkish Delight" pastries.** The fourth and last company financed in the first round was SULTANPRODEXIM SRL - producer of Turkish delight. The company presented its own project idea in the last CER workshop: a new section for sugar products. But this idea came on the second place, immediately after the "Local Revolving Loan Fund". Even in this situation, the owner considered that it is a good opportunity to reduce the expenditures relating to the opening of a sweets production section and requested a loan. His cooperation with AJOFM will continue after he repays the loan because the workforce must be trained as pastry cook and confectioner, professions that are in demand on the market in Medgidia.

Once the new production section comes into operation, SULTANPRODEXIM SRL will become the second employer in the town, with about 100 employees.

### **Replenishing the Medgidia Revolving Loan Fund for a second round of loans**

After the first round of loans, when the loan granting mechanism was tested, the committee waited for the fund to be restored, which was the evidence that the mechanism works, and that its finances are in good condition. The results have started to appear sooner than the local partners expected and their faith in local businesses was well placed..

The Credit Committee decided in November 2000 that, starting this month it would accept credit applications each month. Thus, in December 2000 and January 2001 two companies obtained loans: ALTCOM SRL and MEVILA SRL.

Small and medium enterprises or small entrepreneurs, either producers or service providers are expected to access the "Local Revolving Loan Fund" in order to consolidate, develop or create new businesses and jobs in Medgidia.

## **Bulgaria: Rouse Community Based Collateral Fund**

A new financial instrument, a Collateral Fund, was introduced in Rouse, Bulgaria, to answer the needs of micro, small and medium-sized enterprises. It provides financial security for bank loans. The objective of the Fund is to make business financing possible, reduce the red tape, and shorten the time for processing and obtaining of bank loans.

*Stage one:* The Collateral Fund was established as a partially independent structure, supported institutionally by the Business Center for Support of the Small and Medium-Sized Enterprises (BCSSME), including office space, communications: telephone, fax, Internet access, equipment and rent. This stage will last 18 months.

*Stage two:* The Collateral Fund accumulates own capital, becomes a fully self-supporting and independent entity, including court registration. The duration of this stage will not be limited in time.

The relative independence of the Fund involves own bank account, approval of loan applications, management, as well as a separate balance within the BCSSME accounting department. The PLEDGE seed capital of USD 50, 000 is entirely devoted to loan security and the direct cost of the activities is covered by the Business Center, so as to expedite the launching of the Fund.

### **Project related results**

- 10 private projects have been supported with loans, expanded their business and entered foreign markets to preserve existing jobs and open new ones;
- Jobs generated – 96 (of them, 40 under Quick Start);
- Jobs saved – more than 20.

### **The Short-Term Projections**

*Within 12 months, by means of collaterals provided by the Fund:*

10 micro-enterprises will be financed;

10 small and 5 medium-sized firms will be co-financed;

Equipment will be leased for another 3 existing enterprises to launch new products;

Some 75 new jobs will be opened and about 300 already existing will be preserved;

### **The Long-Term Perspective**

The long term goal of the project is to increase the amount of funds channeled to small business operating in the Rouse region and to make the Fund self-sustainable.

## **Capitalizing self-employment through UI benefits**

Beginning with a 1979 pilot program in France, many Western industrialized countries have implemented self-employment programs for unemployed members of the labor force. There are now 17 OECD member nations offering self-employment services to unemployment compensation recipients. The size of these programs varies considerably. Great Britain and

France have relatively large operating programs; 118,000 persons were enrolled in Britain in 1989. The U.S. has been running small pilot demonstration programs in two states with 1,255 persons enrolled.

Although these programs are different, they share some common features. All the programs attempt to facilitate the creation of new businesses that re-integrate structurally unemployed experienced wage-earning workers back into the economic mainstream. Usually, six to ten months of unemployment payments can be obtained as a lump sum payment to help start a business. Secondary goals of these programs include increasing the probability of participants' business success through training, business consulting, and, sometimes venture capital.<sup>18</sup>

## **Sweden: Renewal Enterprises and job creation**

The idea of using unemployment insurance benefits to give individuals the opportunity to organize new business enterprises has been taken one step further in Sweden, with considerable success among unemployed executives and white collar workers. Called Renewal Enterprises, the program is an innovative way of responding to dramatic economic problems and structural changes occurring in the Swedish Economy in the early 1990s, which created high levels of unemployment for the first time in decades, including the displacement of thousands of highly qualified white-collar workers. Sweden's economy experienced high interest rates, a fiscal crisis and recession, resulting in soaring unemployment. These adverse developments indicated that the Swedish economy was undergoing fundamental structural change. This was evidenced by the fact that substantial numbers of white collar workers that were being displaced and offices being closed while at the same time there was a growing demand for new types of service businesses.

This anomalous situation generated the idea for an innovative new approach to employment creation.<sup>19</sup> McGruppen, a Stockholm-based private sector Management Institute proposed to the government the idea of assisting unemployed managers and white-collar workers to use their unemployment benefits and time to help them create new enterprises. The Institute receives a fee from the local government unemployment office of between US\$3,500 and \$5,000 for each candidate, which also covers the rental of office space and equipment.

The Institute selects small management teams made up of unemployed executives and matches them with business ideas. The teams then receive two weeks of intensive instruction, during which they are trained in business methods and write a business plan. The participants in the program are worked very hard during the training sessions, testing their ability to work together and the viability of the business ideas. Renewal Enterprises retains ownership of each proposed company and does not hesitate to replace those individuals who do not measure up. If the business plans appear to be viable, the ventures are established as limited liability companies and recruitment of employees begins. The new businesses take on other unemployed workers who receive only their state unemployment benefit during six months of "on the job training."

The new business enterprises created as part of the program usually share offices and computer equipment. Further, "in typical Swedish egalitarian style, all employees take turns cleaning lavatories, sweeping floors and emptying waste paper baskets."<sup>20</sup> According to Lars Osterlind, president of McGruppen Institute, "The belief in success must be greater than the fear

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<sup>18</sup>U.S. Department of Labor, *Self Employment Programs for Unemployed Workers*. Washington, 1992, p. 240.

<sup>19</sup>Andrew Bolger, "Enterprising idea for career renewal," *Financial Times* (London), March 19, 1995.

<sup>20</sup>*Ibid.*

of failure. It is important not to be discouraged by the first setbacks—they tend to come before success. The secret is to look for possibilities, not problems.”<sup>21</sup> The would-be managers of the new enterprise must calculate costs as if they were operating a real business, and face the realities of survival and not a false picture.

At the end of the six-month period, the new companies created are evaluated and the successful ones spun off, with the equity going to the managers and employees. It is at this point that individuals who generated the business ideas are rewarded with licensing agreements or equity stakes. Renewal Enterprises does not keep any equity in the companies, although it sometimes keeps a representative on the board of directors.

The success achieved by Renewal Enterprises program in a short time is substantial. In 1994, more than 2,000 people participated in the program in cities across Sweden. More than one-half ended up with full-time jobs—either in their own or other companies. This compares with a success rate on Swedish government-funded jobless projects for all types of worker which can be as low as 2 or 3 percent.<sup>22</sup>

The success achieved by Renewal Enterprises has led to another possibility: can “Renewal principles” be extended beyond the jobless? Perhaps, suggest McGruppen officials, working executives have ideas that could be turned in viable businesses. This possibility, and the resultant creation of jobs, could be facilitated if these executives did not have to take the risk of giving up their present jobs to put them to the test. Why not give them an extended leave from their present employer to test their business ideas. They could then return to their previous career—“whether or not the ideas bore fruit.”<sup>23</sup>

## **Capitalizing self-employment through credit cooperatives**

In nearly every part of the world, credit and savings cooperatives play an important role in the lives of people in rural and urban areas; and many have been organized as part of entrepreneurial initiatives for employment creation or business purposes. Although there are several different types of credit cooperatives (e.g., consumer-oriented credit cooperatives, investment-oriented credit cooperatives, and market-linkage cooperatives), the most important from the perspective of small business development are the small business cooperatives. This type of cooperative has achieved the broadest international expansion as well as the greatest national importance. Small business credit cooperatives consist of commercial and farming credit cooperatives, and cooperative banks in rural and urban areas.

The small business credit cooperatives started in the mid-19th century in Germany in cities and villages under the direction of two pioneer cooperative leaders, H. Schulze-Delitzsch and F. W. Raiffeisen (Schulze-Delitzsch Cooperatives in 1855, and Raiffeisen Cooperatives in 1864). Schulze-Delitzsch was the first in Germany to develop a concept for the successful initiation of urban credit cooperatives and supply cooperatives for craftsmen. The concept was originally oriented toward the specific needs of small craftsmen who suffered as a result of competition from the growing industrial enterprises. Above all, the craftsmen needed reasonable loans for investments in their small enterprises. Such loans were not available from the

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<sup>21</sup>Ibid.

<sup>22</sup>Ibid.

<sup>23</sup>Ibid.

fragmentary banking system, and private lenders charged rates which sometimes exceeded 500 percent. Raiffeisen developed his ideas of self-help as a result of the famine caused by the poor harvests in 1846–47. His concern over the problems of small farmers and rural poverty, and particularly their dependence on money-lenders and traders, led to the creation of agricultural credit cooperatives. Subsequently, as the need for additional supply and marketing services became evident, the Raiffeisen cooperatives expanded to become simple multipurpose rural farm cooperatives.<sup>24</sup>

Using the Schulze-Delitzsch and Raiffeisen cooperative concepts, farmers, craftsmen, and small and mid-sized companies joined together to form credit cooperatives with the goal of making savings available to the group as a community. The practice of lending the savings out to members was based on their personal creditworthiness. Alongside the notion of credit unions, only these concepts developed by Raiffesen and Schulze-Delitzsch have developed practically worldwide into all purpose cooperative banks. The Raiffeisen Movement has achieved an international position, and the Schulze-Delitzsch version is found primarily in Western Europe in EU countries. In the United States, the “farm credit system” is the rural equivalent of the European small business credit cooperatives, but there is no small business or urban equivalent. The credit union has become the most common form of savings cooperative in the United States.

Three examples, two from Asia and one from Canada, demonstrate how consumer credit unions and small business credit cooperatives can serve as important capital sources for entrepreneurship and small business development.

## **Indonesia: Women’s Credit Cooperatives**

In Indonesia, women are responsible for the management of household finances. With or without male help, they are responsible for the family’s survival. A study in Java determined that 20 percent of the households are headed by females, two-thirds because of divorce. The present situation in the country forces women to intensify their income-generating activities to make ends meet. For many, this means becoming a trader or setting up a small retail shop. Loans are needed to buy stocks or improve the shop.

When a poor woman or man needs money for business purposes, there are normally two possibilities—go to a moneylender or join an informal savings and credit system in the community. The *moneylenders* charge interest rates of between 20 to 30 percent per month; however, they give good service. They visit their customers’ homes; the loans are private and do not require cosigners, documentation or collateral; and the moneylenders make instant decisions. An *informal savings and credit association* enables the participants to save money they otherwise would spend for consumption needs, provides financial discipline to the savings process, avoids the hoarding of cash, has no administrative costs, is an easy procedure, and promotes social integration among people.

However, informal savings and credit associations have disadvantages. If a loan is needed for business purposes, the disbursement is determined in advance which makes it inconvenient for business operations. There are some risks if someone fails to pay up or if the participants stop contributing. The whole schedule is quite static and cannot evolve to meet flexible needs.

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<sup>24</sup>Alfred Hanel, *Basic Aspects of Cooperative Organizations and Cooperative Self-help Promotion in Developing Countries*, Marburg: 1992, pp. 6–9.

Because everyone must contribute the same amount, the amount saved and disbursed is usually quite low.

Consequently, many people join together to organize *savings and credit cooperatives* to obtain the resources they need to increase their incomes through self-employment and business activities. Most of the savings and credit cooperative members are self-employed as small traders. They use loans from the cooperative to start or operate their business, run retail shops, or engage in productive activities at home. The savings and credit cooperatives provide them with loans at reasonable interest and do so with some of the advantages and without most of the disadvantages of the moneylenders and informal savings associations. More formal credit and savings institutions are needed.

The publication of a study conducted by the ILO on *Women's Involvement in Thrift and Credit Co-operatives in Selected Asian Countries*<sup>25</sup> documents the extensive development and widespread use of credit cooperatives for employment and income-generating purposes in Indonesia and elsewhere in Asia.

## **Philippines: Baclaran Vendors Development Cooperative, Inc.**<sup>26</sup>

The Baclaran credit cooperative was initially organized as a typical credit union by market vendors in one of the business centers in Metro Manila. The origin of the business center, popularly known as Baclaran, dates back to the 1950s when some Catholic priests established a church in that neighborhood. People from all walks of life came to the church, especially on Wednesdays, to pay homage to one of the Saints. A number of vendors started selling their wares, clothes, shoes and bags, near the church at lower than downtown retail prices. Their need for capital to purchase their stocks led many of them to local moneylenders for loans at rates as high as 20 percent a week.

In 1976, the idea of forming a credit union was introduced to a group of vendors in the Baclaran area. The vendors liked the idea and organized the Baclaran Vendors Credit Union, Inc., with 250 members. The credit union was registered on January 25, 1977. Eighty percent of the original members were women. For the next three years the credit union grew slowly in terms of membership and capital, but the members were able to use the cooperative and its financial clout to obtain lower rentals from the owner of the market for the stall space they occupied. By 1980, the credit union had one employee and rented a small space. As business improved, operations moved to a one-room office. Several years later, as business and membership increased, it moved to larger quarters. In addition to business and personal loans, in 1984 the cooperative began providing “appliance loans” to enable members to buy appliances from the cooperative on an installment basis.

In 1985, the members voted to obtain their own building to enhance their business activities. The cooperative retained patronage refunds as a building fund. Eventually, a 271-square meter site was purchased along the main road to the Baclaran Church, just across the road from the Light Rail Transit Terminal. After buying the lot, the cooperative erected a three-story building with a roof deck, financed by the members' own capital without any external funding.

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<sup>25</sup>D. Mavrogiannis, ed., *Geneva: ILO, 1991*

<sup>26</sup>Milagros J. Macaranas, “Women's Involvement in Cooperatives in the Philippines,” in D. Mavrogiannis, *Women's Involvement in Thrift and Credit Cooperatives in Selected Asian Countries*, ILO, 1991, pp. 194–243.

On July 16, 1987, the credit cooperative moved into its new building. It leases the first floor to 140 members as stall holders. The second floor is a selling area for groceries, rice and raw materials that members use for shoe and garment manufacturing. The cooperative office occupies the third floor and has an appliance display room. The roof deck is used as a training room, physical fitness gym and social hall.

The Baclaran Vendors Cooperative has been very successful. It provides its members with a number of services: accessibility to credit at reasonable rates, continuous training, dental services, networking and business linkages among members, and networking and business linkages with other cooperatives. Members with small ready-to-wear garment factories give weekly discounts and credit lines to co-member retailers who have limited capital. Members are also able to conduct business with other consumers/vendors cooperatives in other regions of the Philippines. At last count, the cooperative had nearly 2,000 members.

## **Canada: Evangeline Credit Union**

Noting the success of the Mondragon Group of industrial cooperatives in Spain and the importance of a cooperative bank to provide the financial support for a Mondragon-style development (the Mondragon experience is discussed in Chapter 6), a group of 2,500 French-speaking Canadians (French Acadians), living in three small villages in an isolated 20-square mile area of Prince Edward Island, Canada, established the Evangeline Credit Union, a savings and credit cooperative. In 1986 the Evangeline Credit Union responded to a mid-1980s Canadian governmental initiative to stimulate job creation by establishing a venture capital fund, the Evangeline Venture Capital Group, to strengthen the economic base of their community and to create more employment.

They also hired a consultant to explore possible markets for developing workers' cooperatives. Each of the worker-members selected invested CAN\$5,000, most of which they borrowed from their credit union, in their first worker cooperative. In addition, their credit union invested CAN\$51,000 in common shares which served as a working capital loan secured by a second mortgage, and they obtained CAN\$35,000 from the credit union-based venture capital fund. A combination of federal and provincial industrial development programs raised additional capital.

Originally, they were concerned only with consumer and producer or handicraft cooperatives. But the success of their first worker cooperative led to the creation of a children's clothing manufacturing cooperative and the promise of more industrial cooperatives in the future.<sup>27</sup> During the past few years they have created a network of 16 consumer, handicraft and worker cooperatives employing nearly 350 people and providing services ranging from banking, fishing, retail sales, clothing and potato chip manufacturing for this Francophone community. The idea for a potato chip plant came from a feasibility study. They formed an advisory group in the community which brought in other people, including potato producers and prospective members of the cooperative.

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<sup>27</sup> Summarized from Gary B. Hansen, "Using Cooperative Entrepreneurship for Job and Enterprise Creation in Developing Countries and Eastern Europe," Paper presented at the Conference on Internationalizing Entrepreneurship Education, Training and Research, Pembroke College, Cambridge University, 1-5 July 1991.



## Chapter 4

# Provide training and technical assistance for entrepreneurs

This chapter provides examples of entrepreneurial initiatives for several types of entrepreneurship and business development services:

- entrepreneurship training and development programs
- entrepreneurship education for vocational school students
- small business advisory services and management training
- self-help training materials for entrepreneurs and small business owners
- 101 business ideas for would-be entrepreneurs

Because of the scope and breadth of some of these programs, there is some overlap in the activities and objectives discussed in this chapter and the topics covered in the previous chapters. The availability of information, specialized training programs, and advisory and consulting services are very important to the successful promotion of entrepreneurship and entrepreneurial initiatives for employment and enterprise creation. Many governments and nongovernmental organizations (NGOs) have developed exemplary programs that provide such services. Some are operated directly by government agencies, some are free-standing, and some are attached to educational or other institutions.

Training programs and advisory services may also be part of broader business promotion efforts, including a variety of activities and services, or they may focus on one specific activity, such as consultancy, entrepreneurship training, or technology transfer.

## Entrepreneurship training and development programs

The shift from a social Darwinian attitude about new business creation (and the myths attached to it) to a recognition of the importance of small and medium-size enterprises (SMEs) in generating employment has led to the development of formal government-sponsored or financed programs directed at meeting the needs of the SME sector, including training, advisory and other forms of assistance.

Because of the growing awareness in the 1970s and early 1980s of the importance of entrepreneurship and small business development and that the laissez-faire approach to entrepreneurship can be very wasteful and inefficient and, more importantly, that the survival rate of new firms can be increased to generate more jobs and income for people and to strengthen local economies, formal entrepreneurship development programs (EDPs) designed to identify and train individuals who aspire to be entrepreneurs and provide advisory assistance to SMEs have been operational for years.

The legitimacy of EDPs as a means to increase the number and survival rate of entrepreneurs is demonstrated by the ILO-sponsored INTERMAN (International Management Development Network). INTERMAN identified over 200 EDPs, probably only the surface of such efforts world-wide.<sup>1</sup> A 1988 ILO monograph reviewed nine EDPs that were judged successful in developing entrepreneurs for small business creation and four publications on small enterprise development in developing countries. The authors of the monograph concluded that entrepreneurs can be trained, and that the entrepreneurs thus developed and the businesses they create “provide many economic and social benefits that far outweigh the costs of the programmes.”<sup>2</sup>

Among the nine exemplary EDPs identified in the ILO monograph are the EDPs run by the Enterprise Development Institute of India and the Hawaii Entrepreneurship Training and Development Institute.

## **India: Enterprise Development Institute**

The EDP run by the Enterprise Development Institute (EDI) in India is a good example of new enterprise creation training in a developing country. According to the Indian EDI report, the EDPs serve the following developmental objectives:<sup>3</sup>

- to accelerate industrial development by enlarging the supply of entrepreneurs
- to aid industrial development in rural and less-developed areas where local entrepreneurs are not readily available and entrepreneurs from nearby cities and towns are not easily attracted
- to enlarge the small-scale enterprise (SSE) and SME sectors (employment ranging from 5 to 50) which offer better potential for employment generation and wider dispersal of industrial ownership
- to provide productive self-employment for the educated young men and women and the less educated young people
- to improve the performance of small industries by enlarging the supply of carefully selected and trained “well-rounded” entrepreneurs
- to diversify the sources of entrepreneurship and, therefore, business ownership.

The EDI approach to entrepreneurship is considered quite cost-effective, averaging US\$210 per person receiving training. The program reports that 50 percent of the trainees subsequently set up an enterprise; therefore, the training cost per enterprise created is calculated at US\$420.<sup>4</sup>

## **Hawaii: Entrepreneur-ship Training and Development Institute.**

Since 1977, the Hawaii Entrepreneur Development Corporation (HEDC) (formerly known as HETADI) has established a reputation in the field of entrepreneur training and development in North America and the Pacific Rim. Its distinctive nine-month program, three months of classes plus six months of follow-up consulting, covers the following stages: (1) recruitment and careful

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<sup>1</sup>ILO: *Profiles of Entrepreneurship Development Programmes*, (Geneva, 1991).

<sup>2</sup>Loucks, *Training entrepreneurs*, p. vi.

<sup>3</sup>V. G. Patel and D. Awasthi, *Case Study: EDI's Entrepreneurship Development Programme for New Enterprise Creation*, Geneva: ILO, Enterprise and Management Development Branch, 1991, pp. 4–5.

<sup>4</sup>*Ibid.*, p. 13.

pre-selection of candidates; (2) a rigorous residential program with 156 hours of instruction in business plan preparation, entrepreneur development, and business skills and knowledge; (3) implementation consulting and assistance; and (4) evaluation of results. This systematic approach ensures that sound business ideas connect with entrepreneurs who are committed to make them a reality.

HEDC residential candidates use *The Business Plan Manual*, a well-written handbook that leads workshop participants through a four-step approach to business planning: (1) data collection; (2) research analysis; (3) strategy formulation, and (4) forecasting results.<sup>5</sup> The ILO has endorsed *The Business Plan Manual*, and it is used in Africa and several Pacific Rim nations.

A host of countries, communities and entrepreneurs have benefited from the HEDC's training strategy in their efforts to diversify regional economies. The Vancouver Community College in Canada has adopted the HEDC program and supplements the Hawaii program materials with additional training on finding and evaluating business opportunities.<sup>6</sup>

## **Nepal: Small Business Promotion Program (SBPP)**

In late 1979, the German Gessellschaft fur Technische Zusammenarbeit, GTZ (German Agency for Technical Cooperation), embarked on an experimental initiative for small business promotion with an integrated town development project in the city of Bhaktapur, Nepal, population 50,000. The Ministry of Industry was a counterpart organization to the GTZ in the execution of the project.

The project began with a wide range of promotional measures executed through local public institutions and aimed at removing barriers between potential entrepreneurs and business opportunities. In all, seven components were tested and evaluated: entrepreneurship development; technical training; a small business consultancy service; a technology unit; a revolving loan fund; a small industrial estate; and a handicraft export marketing program.

At the end of two years, it was found that the technology unit could not sell its product ideas because they were too innovative, that the export marketing activities demanded a level of sophistication and enterprise management far beyond that available in the community, and that the small industrial estate required too much capital and was diverting resources from other areas considered to be more fruitful.

The GTZ decided to continue the project in Bhaktapur and to replicate the four viable measures in three additional towns in Nepal (Pokhara, Butwal and Dharan) with the following precepts:<sup>7</sup>

- Be selective about who is promoted and clarify why a target group is identified. Not everyone can be served; therefore provide assistance only to the sectors or clients that possess observable potential.
- Identify the target group's needs and wants so that appropriate services can be provided.

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<sup>5</sup>Gene Ward and Richard Kennedy, *The Business Plan Manual: A Practical Guide for Developing Your Business Plan*. The Entrepreneur Development Corporation, Honolulu, published for the Westcoast Development Group, 1990.

<sup>6</sup>Glen Witter, *The Finding and Evaluating Business Opportunities Manual: A Practical Guide for Developing Business Ideas*, 2nd ed. Vancouver, B.C.: Vancouver Community College, July 1991.

<sup>7</sup>James W. Tomecko, *Small Business and Income-Generating Projects: A Metamorphosis*, Kathmandu: Small Business Promotion Project, March 1987, pp. 4–5.

- Deliver only the services that can be managed adequately with the available resources and manpower.
- Keep the organization as small as possible so that the staff is familiar with all the functional areas and the programs are as inexpensive as possible.
- Capitalize on the entrepreneurs' energy, creativity and strength to solve their own problems and adopt a facilitative rather than a prescriptive posture.
- Eventually most of the services should be cost-effective and should be transferable to the private sector at the right time.

The GTZ-funded Small Business Promotion Project entered its next phases of work by focusing on a set of four interrelated programs: (1) new business creation training (NBC) for potential entrepreneurs; (2) small business consultancy services for on-the-spot management advice to NBC trainees and existing owner-managers; (3) technical advisory services; and (4) credit support.

1. *New business creation training.* The objective of NBC training is to help potential small business people to start their own businesses through business idea generation, entrepreneurship training, screening and evaluation of business ideas, and sustained follow-up activities.

NBC training covers a period of six to seven weeks. The trainees spend about one-third of their time outside the classroom collecting and analyzing information and preparing for short presentations. The course covers a series of modules—achievement motivation, creativity, idea generation, project selection, product development, basic math, a demand survey, choice of technology, project costs, project viability, and presentation to bankers.

2. *Small business consultancy services.* Although the primary purpose of this component is to establish NBC trainees in new ventures, its main objective is to provide on-the-spot management advice to NBC trainees and existing owner-managers to help the new and existing enterprises survive and grow.

Teams of consultants in communities prepare small business censuses every two years, provide business counseling and management training, assist planned expansions with credit proposals, and coordinate technical services to clients.

3. *Technical advisory services.* Local technicians carry out four basic technical advisory services to help both existing and potential small business people solve specific technical problems. They:
  - develop a roster of local technical specialists (a technical advisory services pool or TASP) and identify people who can help solve individual technical problems on a consulting basis. The SBPP partially subsidizes the cost of these services to clients as needed.
  - arrange technical study tours of one to three weeks for clients who are starting businesses or who wish to make technical changes in their current production processes. The SBPP partially subsidizes these study tours.
  - maintain an SBPP library of sources, publications and technical information that clients can use.
  - assist SBPP clients to participate in specialised short courses that may be provided by other providers in addition to relying on study tours and TASP services.

4. *Credit support.* Using project and World Bank funds, the SBPP created a revolving fund with a local development bank (the Agricultural Development Bank of Nepal with branch offices in the project communities) for use only by clients recommended by the SBPP. The bank has the right to make independent appraisals and to reject any applications it deems unacceptable under normal bank procedures.

Lending was separated from the other services to insure that the SBPP is not involved in internal conflicts of interest caused by trying to establish trusting relationships with clients and being concerned about possible foreclosures.

In addition to these four main programs, the SBPP conducts extensive staff training and has a complete library of manuals and learning resources to train staff and for use by staff and clients. Because of careful client screening and high quality training, more than 50 percent of the course attendees have carried out successful business start-ups within one year after taking the NBC course.

The success of the SBPP approach to entrepreneurship training in Nepal resulted in its replication by Technonet and other organizations in various Asian, African, Latin American, and European countries.<sup>8</sup>

## **Weaknesses of some micro entrepreneurship development programs**

An interesting dilemma of some entrepreneurship development programs is that while they provide intensive short-term training, some in a residential setting and some non-residentially, they do not provide effective follow-up assistance--especially to those who do not live a short distance from the center. An example of this problem was illustrated by the residential entrepreneurship training program established by an American NGO created by Brigham Young University's Center for Entrepreneurship in Cebu, Philippines. This program was launched as the "Academy for Creating Enterprise" in January 2000, and led by Stephen W. Gibson, an experienced American businessman-cum-entrepreneurship educator and his wife Bette.

The Academy approach is a four-week residential approach that also teaches leadership and other skills needed by would-be microentrepreneurs. The Academy applicants, mostly young adults in their early 20s, were invited to participate in the program by submitting a formal application that provided background information and explained why they wanted to participate in the training program. The applications were screened and a personal interview was conducted with the most promising applicants by a representative of the Academy. The successful applicants (25 were selected for each class) were subsequently invited to come to the residential site, where they received intensive business, entrepreneurship and leadership training during an eight week period. They learn business subjects ranging from negotiating to niche marketing. They also learn how to do simple income statements and keep accurate records so they can make wise business decisions. There is also training on how to use computers, how to write business memos, and how to speak business English. Part of the training included generating a business idea and writing a business plan for a new business that they would like to start. Over an 18 months period 171 aspiring entrepreneurs from throughout the country were trained by the Academy staff.

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<sup>8</sup>Eduardo Q. Canela, *Moving Ahead with Rural Small Business*, Kathmandu: SBPP, December 1988, p. 9, 14.

By the end of the first year and one-half of operation, it had become clear to Gibson and his associates that the original design for the program had a significant weakness--there had been no provision made for follow-up support to help the would-be microentrepreneurs when they returned to their home communities. A follow-up survey of the graduates revealed that when they had returned to their homes to start a business, the task was much more difficult than they had anticipated. While some had succeeded, others floundered when they actually tried to start a business. It became clear to Gibson that the absence of any follow up facilitation and support services, including financial lending resources, were found to be serious problems that had to be addressed if the program was to succeed in achieving its objectives of creating successful micro-entrepreneurs.

Notwithstanding the problems faced by the Academy graduates when they returned home, Gibson reported in April 2001 that "86 percent of our graduates, who were not earning any income when they enrolled, are now earning money either through getting a job or through starting their own businesses."<sup>9</sup>

## **ILO entrepreneurship training materials for vocational and technical school students: "Know About Business"**

*[The material in this section has been adapted from the Trainer Handbook for the "Know About Business" package jointly developed and published by the ILO Entrepreneurship and Management Development Branch in Geneva and the International Training Center in Turin in 1996.]*

As noted in Chapter 1, researchers have demonstrated that job creation depends in large part upon the initiation and expansion of small businesses, and entrepreneurs have the ability to spark new ideas and develop new products and services that create new businesses and thereby create a need for new jobs. Given the high unemployment, public sector retrenchment, corporation downsizing and other restructuring programs in full swing in many countries, self-employment and small enterprise promotion are high on the agenda of virtually every country.

In many developing countries, the youth (defined as anyone under 25 years of age) constitute up to 70 percent of the population. Every year thousands of school leavers enter the workforce looking for work. Consequently, young people present a particular challenge in this scenario. It is critically important, particularly in countries undergoing economic restructuring and adopting a market economy, to educate young people about the fundamentals of entrepreneurship and enterprise development.

In addition to dealing with the unemployed and underemployed, many countries must absorb large numbers of new entrants to the labor market. To help deal with these problems, governments are trying to reorient the education and training systems to prepare trainees for self-employment and entrepreneurship. As part of this effort a few countries have initiated programs to include entrepreneurship training in their educational curriculum .

Against this backdrop, the ILO has developed the *Know About Business* (KAB) package, a set of training materials for entrepreneurship education, that draw on the ILO's success in this field, complement the ILO's *Start Your Business* (SYB) package for business start-ups and existing businesses (discussed below), and the ILO's *Improve Your Business* (IYB) program that

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<sup>9</sup>Reported in the *Deseret News*, April 22, 2001.

has been introduced in over 40 countries.<sup>10</sup> The overall objective of the KAB is to contribute “toward the creation of an enterprise culture.”<sup>11</sup>

The introduction of entrepreneurship education in schools through the use of such programs as the ILO’s Know About Business is essential to accomplishing this task. The primary aim of the KAB package is to give young people an awareness of and some practice in the opportunities, challenges, procedures, characteristics, attitudes and skills needed for self-employment, rather than choosing entrepreneurship or self-employment as a career option.

The immediate objectives of the KAB training package are to:

- create an awareness of enterprise and self-employment as a career option for trainees in vocational and technical training institutions
- develop positive attitudes towards enterprise and self-employment
- provide knowledge of and practice in the required attributes and challenges for starting and operating a successful enterprise, particularly a small business
- prepare trainees to work productively in small and medium-sized enterprises and in environments where formal, full-time wage employment may be scarce or unavailable.

The KAB package is directed at trainers/teachers in vocational and technical training institutions, and the materials are intended for use by trainees/students in vocational and technical training institutions, typically those ages 17 years and over who possess at minimum the equivalent of GCE “O” levels or high school grades and no business/enterprise experience. The materials can be adapted for use in both industrialized and developing countries as well as in further and higher education institutions other than vocational and technical schools.

The KAB package has eight modules. Each module represents a key area of entrepreneurship and is divided into several topics. Furthermore, each module is intended as a stand-alone package, requiring no previous knowledge of the others. The eight modules are:

1. What is enterprise?
2. Why entrepreneurship?
3. Who are entrepreneurs?
4. How do I become an entrepreneur?
5. How do I find a good business idea?
6. How do I organize an enterprise?
7. How do I operate the enterprise?
8. What are the next steps to become an entrepreneur?

The total time required for delivering the materials to trainees is approximately 120 hours. This assumes a 2-hour session per week for 30 weeks a year over a two-year period, or two 2-hour sessions per week over a one-year period.

The training methodology for teaching KAB modules includes:

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<sup>10</sup>See: *Improve Your Business: Handbook*, and *Improve Your Business Workbook*, edited by D. E. N. Dickson, Geneva: ILO, 1986.

<sup>11</sup>*Know About Business*. Pamphlet published by the ILO Entrepreneurship and Management Development Branch, Geneva, and the International Training Centre of the ILO, Turin, nd.

- presentation
- group discussions
- small group work
- case studies
- individual assignments
- projects
- brainstorming
- role play
- guest speakers

## **ILO “self-help” training materials for small business owners: “Start Your Business” and “Improve Your Business”**

As part of its ongoing efforts to promote small business development throughout the world, the International Labor Office developed two sets of self-help training materials. The first, *Improve your Business* (IYB), published in 1986, is about managing small businesses and has a *Handbook* and a *Workbook*.<sup>12</sup> *The underlying idea of the handbook is “that improvements can best come from active and creative thinking that motivates entrepreneurs to take action to improve their businesses.”*<sup>13</sup> *The two books are designed to be read together, but can be used separately.*

*Both the IYB Handbook and the companion Workbook have eight sections: (1) buying and selling, (2) manufacturing and service operations, (3) bookkeeping, (4) costing and pricing, (5) marketing, (6) management accounting, (7) office work, and (8) planning.. The Handbook explains in simple terms what small business people must understand and know to make their businesses successful. The Workbook asks a number of questions to help small business people think about their businesses and how they operate.*

*The IYB training materials start with a section that helps small business people think about their business aims, the role of profit, and why it is important for small business owners to improve their businesses.*

*The successful and widespread use of the IYB Handbook and Workbook prompted the ILO to commission a business professor to prepare a new handbook and workbook in 1995 “to provide information to people who are thinking about setting up a new business.”*<sup>14</sup> *The new handbook, when in draft form, was entitled Start Your Business (SYB). It “brings together facts and figures which are important for potential entrepreneurs thinking of starting a new retail business, wholesale business, setting up a factory, starting a service business or an agricultural enterprise.”*<sup>15</sup> *A companion SYB workbook will be available as well to help potential entrepreneurs practice the skills they need to create a new business. In addition, the SYB materials included sources of assistance to start new businesses and suggestions to help entrepreneurs survive the first year.*

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<sup>12</sup>ILO, 1986.

<sup>13</sup>*Ibid*, p. v.

<sup>14</sup>Geoffrey Meredith, *Start Your Business Handbook*. Geneva: International Labour Office, 1995, p. 1.

<sup>15</sup>*Ibid*.

In 1996, the ILO revised the draft *SYB Handbook* and *SYB Workbook* to develop an edition that would be suitable for use in countries undergoing economic restructuring, such as the former communist countries in Central and Eastern Europe.<sup>16</sup>

The SYB handbook and workbook revisions were initiated in part by the needs of an ILO/UNDP business support project in Bulgaria<sup>17</sup> (which was an outgrowth of the regional project that also resulted in the preparation of the first edition of this *CER Guide*) that was engaged in establishing a Business Promotion and Support Center in the tourism industry in the Mesta Valley of Bulgaria. The operation of the Mesta center is described below in the next section. There was a need for an additional step in the SYB program in Bulgaria to help prospective entrepreneurs understand the free market economy and private enterprise development.

The revised Bulgarian edition of SYB, published in 1997, contains six steps :

1. Understand the Free Market economy and private enterprise development
2. Prepare yourself for private business
3. Develop your business idea
4. Prepare a Feasibility Study for your business idea
5. Evaluate your business idea
6. Prepare to start your business

The original 1995 version of the *SYB handbook* contained nine steps plus two follow up steps to keep the business healthy after startup. These steps are summarized in the following “getting started section.”

## Getting Started

## Steps to starting your business (and to keep it healthy after startup)

To provide an understanding of the SYB process, material from a draft of the ILO *SYB Handbook* has been adapted for presentation in this guide. Both the *SYB Handbook* and companion workbook contain nine steps for prospective business people to follow as they finalise their business ideas and prepare feasibility studies. Two additional steps are included to help new business owners survive during the critical first years of operation after startup. The nine steps to startup and two steps to stay healthy after startup are:

### Pre-start-up checklist

A prospective entrepreneur should carefully weigh the advantages and disadvantages of being an owner or self-employed compared with being an employee and receiving a regular wage or salary. To avoid costly mistakes, prospective business owners should complete the following pre-start-up checklist.

<sup>16</sup>*Start Your Business Handbook* (Bulgarian Edition) Developed by Arvind Nande, Geneva: International Labour Office, 1997.

<sup>17</sup>ILO/UNDP Project BUL/95/001, Sofia, Bulgaria

- Talk with family and friends to learn what they think of the business idea for starting a new business.
- Discuss the soundness of the business idea with people already in business.
- Evaluate personal strengths and weaknesses to be a business owner—employing and being responsible for staff, competing in the marketplace, and financial matters.
- Find out as much as possible about the products, services, prices, costs, people, and the market for the proposed business, or new products, services or outlets if thinking about diversifying an existing business.

## **Step 1: Assess your entrepreneurial fitness**

To be successful, business people must have a sound business idea, the right technical skills, entrepreneurial attitudes and management expertise and understand how to operate a small business, including:

- managing people
- managing finances
- directing business operations
- good sales and marketing practices
- effective interactions with the business environment

Good management involves developing plans for the business idea, providing leadership for the people in the enterprise and making sure that the business systems operate efficiently and effectively. Identify the strengths of the new business and build on those strengths. Plan an organisation that is flexible and obtain the information necessary for sound decisions.

Entrepreneurs possess personal qualities and objectives such as self-confidence, independence, optimism, achievement, persistence, energy, initiative, risk-taking, creativity, flexibility, resourcefulness, foresight and forward thinking. In addition, they:

- concentrate on positive activities
- avoid negative thoughts and ideas
- work with people who think and act like themselves
- constantly look for new opportunities, activities and feedback
- believe in themselves and their talents
- enjoy making decisions, coping with complex matters and deciding which direction to go

If, after evaluating their entrepreneurial fitness, prospective entrepreneurs decide to pursue the idea of starting a business, the following seven steps prepare them to complete the feasibility study, the last step in the SYB process.

## **Step 2: Consider alternative start-up strategies**

When planning a new business enterprise, consider:

- how to start it—buy an existing business? create a new enterprise? or buy a franchise?
- the legal structure to use—family business? sole proprietorship? partnership? cooperative? or a corporation?

- the impact of tax laws on the business and the insurance needed

### **Step 3: Evaluate the business idea and its markets**

This step is probably the single most important activity when thinking about starting a business. Searching out and considering possible alternative ideas and their market potential are essential to starting a successful business. A new business cannot succeed without a business idea that will attract customers and secure a place in the marketplace.

*Develop a list of possible business ideas; then reduce the possibilities to one best idea.*

- Analyse your specific interests, skills and experiences
- Assess the critical strengths and weaknesses of each of your business ideas and the potential market for your specific products and services
- Identify your potential competitors and assess their share of the potential market to determine how much of a threat they could be to your business
- Identify your potential customers
- Identify what would give you a “competitive edge” in the market

Carefully consider the above before deciding on your best business idea. Even converting a good business idea into a successful product or service is not easy.

### **Step 4: Determine the business organization and key people**

Every business needs a good organization—systems and people to get the work done. Whatever the industry, size and complexity of the business being considered, spell out in an organisation chart how it will be organized and who will be responsible for what. Conceptualize the key people who will manage the enterprise. In addition, write staff job descriptions and consider how they will be recruited and their training needs.

The legal structure (family business, partnership, sole proprietorship, cooperative, or corporation) affects the organization, recruitment, training, and job description decisions.

### **Step 5: Identify physical resources and financing needed**

Businesses need adequate physical resources and financing.

#### **Location**

Decide where the business should be located. Consider:

- market factors
- the type of business activity
- product and service supplies and delivery
- personal preferences
- initial start-up or relocation costs

## Physical resources

Physical resources include raw materials, land, buildings, equipment, vehicles, machines, stock, office equipment and furniture. The building or facilities must be suitable and adequate..

## Financing

The kind of business determines how much money is needed and when it is needed. Money is needed for:

- land and buildings
- re-modelling, installing fixtures and equipment
- raw materials
- utility deposits
- legal and other professional fees
- advertising and promotion
- general operating expenses until revenues are sufficient to cover the costs of operations

Investigate possible sources of funds:

- personal savings
- friends or relatives
- additional equity partners or shareholders
- banks
- venture capitalists
- credit and savings cooperatives
- loans or grants from governments, NGOs or international lending agencies

Step 8 contains additional information about obtaining financing for business start-ups.

## Step 6: Consider day-to-day operations

Consider what the day-to-day operations of the business will be. Regardless of whether the business will be a service, manufacturing or some other type of business, day-to-day-activities will probably include:

- buying products, raw materials, and/or services
- supervising production and office operations
- marketing and promoting the business
- selling the products or services
- analyzing sales and profits and controlling business costs
- setting product or service prices for potential customers or clients

The *SYB Handbook* discusses these activities in some detail to help potential entrepreneurs learn about basic business operations.

## **Step 7: Monitor financial performance and plan**

Owners must constantly monitor sales, costs and profits to stay abreast of what is happening and plan for present and future financial success. Good financial performance depends on:

1. planning for future sales, expenses, and profits
2. setting targets for future sales and to motivate staff
3. projecting future income and costs based on actual income and costs

The *SYB Handbook* explains the essentials of financial planning and cash flow analysis to help prospective entrepreneurs learn the basics of financial performance and planning.

## **Step 8: Identify funds required and sources**

Borrowing money to start a new business requires persuading a bank, government, other financial institution or venture capitalists that:

1. the money is needed for particular assets—land, building(s), equipment, vehicles, stock, raw materials, machines, office equipment or furniture
2. alternative costs and types of assets have been explored
3. expected future profits will cover the interest on the loan and the amount borrowed

Funds are needed for working capital. A decision must be made about leasing or renting equipment and premises. Once funding needs are identified, they must be matched with potential sources. Future financial success requires that cash flows cover the interest payments and principal repayments.

After completing the first eight steps, prospective entrepreneurs must decide whether they want to start a business using their best business idea from Step 3.

## **Step 9: Prepare the feasibility study**

The feasibility study is the final step in the SYB process. It is the culmination of the previous eight steps. It examines what the new enterprise is all about, including its plans, objectives, financial needs, etc. It must be well prepared (get help when needed) and well-presented to convince banks and other financial lenders to provide the necessary start-up funds for the proposed business.

The feasibility study lists:

- the aims and objectives of the business
- a description of the business
- products or services to be offered for sale and the market for those products or services
- the organization of the business
- finances needed to start the business
- projected profitability of the business
- an assessment of the potential risks

The preparation of the feasibility study must be thorough. The *SYB Handbook* discusses each section in detail and provides worksheets and charts to help prepare the formal feasibility study.

The SYB suggested format and headings for the study are:

- Cover sheet and executive summary
- Personal and business objectives
- Advantages of the proposed method to start the business
- Brief description of the proposed business
- Owners, key staff and organization
- Resources required to set up the business
- Market assessment of the products or services
- Financial performance targets and analysis
- Funds required and sources of funds
- Cash flow and loan repayment projections

## **Step 10: Beyond Start-Up 1: Survival during the first year**

Business success depends not only on a thorough feasibility study, but also surviving the first year after start-up when many small enterprises fail. In most cases, these failures result from inadequate preparation prior to starting the businesses, inadequate day-to-day controls and underutilization of professional advice.

### **Maintain Control and Be Innovative**

The following key points focus on how to maintain control and be innovative during the crucial first year.

- *Maintain control through the system of management.* Most businesses can reduce expenses and increase the efficiency and effectiveness of standard procedures and office practices through better control. Obtain professional help as needed.
- *Control expenses.* Keep all expenses under control, especially during the first year. All facts and figures should be kept and prepared by someone who will provide timely and accurate reports.
- *Provide products and services that are “different.”* Businesses that provide products and services that are “different” attract customers and, hence, survive.
- *Focus on marketing high profit products and services.* Know the selling prices and gross profits to expect from each product or service. Improve marketing strategies to be competitive and attract new customers.
- *Set and achieve targets by involving all the staff in decision-making and giving them incentives.* In most cases, success during the first year is influenced by giving the staff targets to achieve and encouraging them to exceed those targets. A reward system can motivate employees and be very beneficial to the business. Some businesses reward employees who achieve the targets, and some businesses give further compensation to employees who exceed the targets.
- *Train the staff to be an effective selling team* whether the selling is over the counter, via telephone or contact with potential customers. Every staff person, including those who answer the telephone, is an important part of the sales team.
- *Service and customer satisfaction.* Small businesses often achieve excellent service and customer satisfaction better than large businesses.

## **Control Cash Flow**

Controlling the cash flow is critical to survival during the first year.

- Apply the basic rules of borrowing and using cash—never borrow “short” to invest “long.”
- Always have more cash available than needed.
- Always try to plan and control cash flow.
- If it appears there will be a cash flow problem in a particular week or month, approach the banker before the problem occurs, not after.

## **Contingency Planning**

Because of the importance of cash flow to survival, make a contingency plan to remedy any situations that could adversely affect cash flow. Identify potential side or additional products or services that could generate overall sales to secure an adequate cash flow.

## **The Place of the Business in the Country’s Environment**

Make certain that the business meets all the legislative requirements. Consider the safety and place of the business in the country. There are three aspects of this issue.

1. Take care of the staff’s well-being. This will motivate them, could increase production and save money.
2. Contribute to the industry, the business community and the local community.
3. Do not pollute the environment in any way through your business activities.

## **Step 11: Beyond Start-up 2: Getting help for business success**

Evidence shows that the owners who obtain the help of advisers, consultants, counsellors and professionals, such as accountants and lawyers, survive best in a competitive market. People intending to start a business should identify the kinds of help available and how they can utilise that help most effectively.

### **Types of Help:**

- *Counseling*: Using external help to identify problems, their causes and how to solve them.
- *Consulting*: Hiring someone to study and solve problems, including correcting past mistakes and implementing actions to overcome them.

### **Appropriate Sources of Help:**

- Business owners who have had the same or similar problems
- Industry association personnel specifically trained to provide advice
- Professionals such as accountants, lawyers, engineers with expertise in a needed area

- Consultants in special areas
- Government advisors (small business specialists) trained to assist small business owners and people planning to set up businesses
- Suppliers of products or services who can provide advice
- Customers with expertise in management or a specialized activity

The community or region may have a small business centre with specialists who can provide advice or a business school with professors or extension specialists who can help. Identify sources of assistance before you need help.

### **Using Help**

- Owners frequently wait too long before seeking help. It is better to seek help earlier than necessary than too late.
- Benefits from the help should far exceed the costs.
- Setting targets and monitoring progress toward them are frequently the first steps in detecting warning signs.
- Communication with staff can help detect warning signs.

### **Preparing for Help**

Many small business owners do not receive the full benefits of advice and help because they fail to prepare for the help.

To prepare for consultants:

- Give clear instructions and whatever background information is important in the terms of reference to ensure that the consultant is well informed before beginning the consultancy.
- Specify in the terms of reference how the consultant should formulate the actions to be undertaken.
- Ensure that whatever information is necessary to help the consultant is made available.
- Inform the staff of the proposed consultancy and what it may mean in terms of their involvement and assistance.
- Make yourself available to assist and guide the consultant whenever necessary.
- Take time to assess the progress being made by the consultant.

### **Follow-Up: Making the Help Work for You**

To ensure that your business receives the greatest benefits from consultancy, implement the changes and take the recommended actions.

## **Small business advisory services and management training**

There are a large number and a wide variety of small enterprise advisory services and management training programs in developing and industrialized market economy countries. The

range of these services internationally was explored by Philip Neck, Robert Nelson, and others in two editions of the book *Small Enterprise Development: Policies and Programmes*, published by the ILO in 1977 and 1987.

According to Geoffrey Meredith, in most instances management training and advisory services for small business owners consist of training courses, advisory and consultancy services, “multiplier agents” and “extension services” made available through counseling and consulting.<sup>18</sup>

Because of the increased interest in entrepreneurship and small business development, there has been a proliferation of programs designed to promote these activities. Consequently, there is the possibility of some overlap and duplication among microenterprise development programs, entrepreneurship development programs, small business advisory services and small business management training programs in the same geographic area.

Although the possibility of duplication and overlap exists, for the most part these types of programs provide a different range of services, use different pedagogical methods, have separate funding sources and focus on a particular target group. For example, microenterprise development programs normally focus on self-employment and income generating activities. Entrepreneurship Development Programs in industrialized countries usually emphasise starting small businesses that can generate substantial numbers of jobs. Furthermore, because of their small size and limited resources, most of the business advisory services reach only a small fraction of the potential clientele in their areas.

The following items are examples of several different types of small business advisory services: the national system of small business development centers established in the United States during the past forty years, the Enterprise Mentors program established by an internationally-funded nongovernmental organization in the Philippines in 1991 to provide would-be entrepreneurs with training and advisory assistance so they could create businesses, jobs and income for themselves and other poor people in their communities, and small business assistance using “Enterprise Facilitators” to coach owners of start-up businesses in Australia, Canada and other countries. Another example of how business advisory services are being delivered in Central and Eastern Europe is the Business Promotion and Support Center model, initiated by an ILO/UNDP project in Bulgaria in the mid-1990s. It is described in Chapter 5.

## **U.S.A.: Small business advisory and management training services.**

In 1953, the U.S. Congress created the Small Business Administration (SBA) to provide assistance, counsel and other services to the small business sector in the country. The SBA’s *business development program* serves as a catalyst for small business development and growth by providing marketing and training information. Programs operating nationally and through state offices focus on management training, financial assistance, international trade, women’s initiatives and resource partnerships.

The SBA’s *management assistance program* supports a network of small business resources in each state that provide management training, counseling and information to the small business community. Its objective is to improve the management skills of small business

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<sup>18</sup>Geoffrey G. Meredith, “Management Services for Small Enterprises,” Chapter 9 in Philip Neck and Robert E. Nelson, *Small Enterprise Development: Policies and Programmes*, Geneva: ILO, pp. 126–129.

owners and to reduce the number of failures caused by poor management practices. It has prepared a wide variety of management assistance publications for distribution.

SBA *management training workshops* for prospective and existing business owners are sponsored by community and business groups. The SBA also publishes training materials and instructor guides for the following business management training:

- basic management skills,
- business planning,
- marketing and sales strategies,
- purchasing and controlling costs,
- recordkeeping,
- financial management,
- business law and risk protection,
- microcomputers for use by small businesses,
- managing a service business,
- increasing one's selling power,
- advertising
- inventory management

Free, individual counseling for businesses having problems, for firms wishing to review their operations to prevent problems and for prospective business owners is provided under SBA auspices by:

- *SCORE/ACE Chapters*. Retired executives (SCORE) and active executives (ACE) voluntarily share their experience on a one-time or continuing basis.
- *Small Business Institutes (SBIs)*. Undergraduate and graduate business students and their faculty advisors at colleges and universities provide on-site in-depth management counseling to a business for a full semester.
- *Small Business Development Centers (SBDCs)*. State-wide networks of local, state and federal government programs, private sector resources and educational facilities provide in-depth managerial and technical counseling as well as specialized assistance to minorities, women, veterans and handicapped business owners. SBDCs are usually located at colleges or universities.

The SBA provides procurement and technical assistance to help small businesses obtain a fair share of the billions of dollars in goods and services that law requires the government to purchase from private companies each year.

Through government guaranteed business loans, direct business loans, and other specialized financial and loan guarantee programs, the agency's financial assistance program provides small businesses unable to borrow money at reasonable terms from conventional lenders with better access to debt and equity financing.

International trade counseling and training is available to managers of small businesses who are thinking about entering the overseas marketplace as well as those desiring to expand their current export operations.

## Philippines: Enterprise Mentors

Enterprise Mentors International Foundation was started by a group of people with extensive international business experience who were concerned about the lack of economic opportunity available to poor people in the Philippines.<sup>19</sup> It financed an assessment study and, based on its findings, designed a program that focuses on “assisting small-scale enterprises or would-be entrepreneurs in the Philippines who have the potential for micro-business success, thereby generating jobs and raising the living standards of the Filipino poor”. The underlying assumption is that by providing managerial training and technical assistance, these people “will be able to leverage their efforts and create longer-term economic sustainability”.

The principles of operation employed by the Enterprise Mentors entrepreneurship development program include:<sup>20</sup>

- establishing local “ownership”, by having operating boards and staff be as indigenous as possible to each locale
- promoting understanding, appreciation for and adoption of free enterprise principles, including freedom of exchange, private property, respect for and adherence to the law
- maximizing the principle of self-help to include individual initiative and personal responsibility
- fostering cooperation, not commiseration, and
- building people and their leadership and management capabilities rather than building institutions.

The founders organized the Philippines Enterprise Development Foundation (PEDF) in 1990 as a non-governmental organization (NGO) with a local board of directors. The PEDF establishes its own budget, hires its own staff, and operates programs through a technical assistance center based in Makati, a financial district of Metro Manila. In 1991 a second independent center, with its own board and staff, was opened in Cebu. In 1992 a third independent center was opened in Davao.

From 1990 to 1995, these three centers conducted training programs for 9,432 participants, engaged in 1,164 in-depth consulting projects, created 1,355 new jobs, enabled 563 small businesses to access loans, and provided training and consulting to 71 cooperatives.

The Enterprise Mentors entrepreneurship and business development centers offer a variety of services to needy people who want to grow an existing small firm, or who hope to do a microenterprise startup. Their projects must be economically viable, and they must have high personal ethics, a willingness to risk, capacity to learn business principles, ambition, and a sense of stewardship and willingness to help others in the future.

The Enterprise Mentors’ centers offer several services:

- accounting, marketing, and other business essentials education to managers and small business persons

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<sup>19</sup>Enterprise Mentors International Foundation is the parent organisation that established the Philippine Enterprise Development Foundation, Visayas Enterprise Foundation and Mindanao Enterprise Development Foundation, entities that operate three small business development centres in the Philippines. It is headquartered in St. Louis, Missouri, USA.

<sup>20</sup>Enterprise Mentors, *Building Self-Reliance Through Small Scale Enterprise in Developing Countries*, nd.

- training to groups of people who have or want to start small-scale enterprises
- networking efforts that link people with others who run similar businesses or refer them to other experts such as attorneys, engineers, bankers, or mentors
- business clinics that assess needs in order to provide counselling
- staff experts who provide on-site in-depth, long-term client services, including data collection and analysis and developing business plans
- cooperative development that leads to the organization of group coops for credit, marketing, and other purposes.

All business services are conducted by paid native Filipino PEDF, VEF or MEDF staff members who work as trainers, consultants, secretaries, and computer technicians, led by an executive director. Assistance is provided on a “value for value received” basis so that small-scale entrepreneurs do not assume they can get something for nothing.

### **Business assistance using “enterprise facilitators”**

An alternative or supplemental approach to short-term intensive entrepreneurship training that can be used to facilitate business startups is to establish an extension network of support individuals and/or services that would be available at the local level to provide follow up support to people in a community who have demonstrated a significant desire and interest in starting a new enterprise. One successful example of this outreach/ extension support approach for would-be entrepreneurs at the local level was developed as a result of the failure experiences by a young Italian Peace Corps-type volunteer and his four companions working in Zambia. They were trying to teach local people agricultural skills. Their efforts failed miserably because they did not understand the people, culture or setting in which they were working.. Subsequently, one of the members of the group, Ernesto Sirotli, went to Australia to work with the aborigines, without "bringing any ideas, any resources," but he would become available in a community to work one-on-one with individuals who wanted "passionately" to create a sustainable livelihood.

During his Australian experience Sirotli developed a philosophy and strategy for mobilizing a voluntary civic leadership groups in a community who, aided by a paid "enterprise facilitator," would help "people "who are dreamers and have a passion for business"--budding entrepreneurs and struggling small business owners--become more successful, thus generating jobs and economic development in their community. The enterprise facilitators teach management to the people at the grassroots. They are management coaches. The Sirotli-trained enterprise facilitators "don't take any rubbish" from their clients. Says Sirotli,

"[U]ntil you are prepared to do the self-assessment of what it is that you love [about business, i.e., product, marketing, or finances], forget it. And we never initiate, we never motivate. We never come to your house in the morning to say, hey wake up, come and work. You are not interested in doing something for yourself? Great! It means that we have time to work with somebody else [who does]." [Speech by Ernesto Sirotli, "Passion, entrepreneurship, and the rebirth of local economies." Spokane, WA, Feb. 1999.]

Something like Sirotli's enterprise facilitator model might help fill the gap in some educational approaches that are provided in an institutional setting but without any follow-up assistance--which leads to a high failure rate of business start-ups. Experience suggests that the success rate

for business start-ups can be increased significantly by assisting workshop attendees and graduates more directly when they return to their home communities and grapple with the issues relating to their business start-ups.

The Enterprise Facilitators approach used by Sirolli, or some variation of it, could be an important addition or complement to overcome the weakness identified by the founders of the Academy for Creating Enterprise in the Philippines, discussed in an earlier section of this chapter.

## Chapter 5

# Start business promotion and support centers

### Getting Started:

### Steps to start and operate business promotion and support centers

The following step-by-step guide is provided to give you an understanding of how a community might go about organizing a business promotion and support center. A BPSC could be one of the projects selected as an outcome of the community CER assessment and planning efforts. Material from the ILO/UNDP experience in setting up these centers in Bulgaria has been organized to help your CER Implementation Team consider whether this type of organization should be implemented in your community or region. The ten steps to starting a BPSC are:

#### Step 1: Conduct local economic analysis on a community basis

The first step to establish a business promotion and support center is to understand the local reality. The word local means the geographic area the BPSC will be working in. A thorough understanding of the economic situation is necessary in order to develop the proper balance of services to the appropriate target audience at the correct price.

An analysis of the local situation will encompass at least the following aspects:

- How large is the community and labor market area, e.g., how many residents, and how many enterprises
- how many sole traders, microenterprises, small and medium-sized businesses
- in what industrial sectors are the businesses located
- what services are available to assist the business community
- what is the employment level and its composition
- are there any foreign investors, in what sectors
- what is the municipality's approach to the private sector
- what kind of relationship does the municipality have with other communities in the area
- what are the strengths and weaknesses of the community
- what are the opportunities for development

While you gather this information, you also need to interview the stakeholders in the community to understand their perspective in the current issues and possible ways to develop the

community. Once you have conducted a thorough analysis this should be written down in a report, which then can be distributed, to the stakeholders. This local economic analysis is also important because it will serve as your base line data when you monitor and evaluate the work of the BPSC after its first year of activity.

## **Step 2: Understand the target audience**

After you have conducted the local economic analysis, you should have a better understanding of who could be your potential clients. The next thing to do is to develop a questionnaire titled "Initial interview with clients" and to meet with as many potential clients as you can. (This should be a minimum of 30 to 50 businesses) Your questionnaire should contain the following sections:

- Name of individual company
- Company address, telephone number, fax number, email address
- Contact person at the company
- Legal status of company
- .Industry sector
- Number of employees (paid and unpaid, full time and part time)
- Customer profile
- Types of services potential client would be interested in having: advice, marketing, finance, accounting, information, training programs (on what topic?), business plan development, human resource issues, productivity improvement, cost savings, exporting, legal and taxes, other

After you have met with the potential clients, you need to input all the data into a computer and you will then have a database of companies in the community and region and your potential clients.

You need to sort the clients and their needs into different categories such as people considering starting their own businesses, microenterprises in the first two years of business, small companies, and medium-sized businesses. This way, you will be able to clearly see that you will need to provide different services to clients in their different stages of business development.

## **Step 3: Establish trust and acceptance from community**

Introducing a Business Promotion and Support Center into a community that has not had one before is a difficult process. You will need to overcome mistrust and fear of the unknown not only from the business community and your potential clients, but also from the community leaders. It is very important to establish a dialogue with all the relevant persons in the community who could have an impact on its success.

A good way to start involving the community and to gain its trust is to establish a Local Economic Development Forum. During this one-day event, you will explain the concept of Local Economic Development, you will present the results of the Local Economic Analysis and you will explain the role of the BPSC and what it can provide to the community. After this workshop,

you will hold periodic meetings with the stakeholders to inform them of the BPSC's activities, achievements and lessons learned.

It is fundamental to the long term success of the organization to develop and nurture trust and acceptance from the community. Without it, the BPSC will always be an outsider and will not be as successful as it could have been. This step is an ongoing process and will need to be addressed at all stages of development of the BPSC.

## **Step 4: Design the organizational structure**

At this point, you are establishing the foundation for the BPSC organization. You will need to address the following issues:

- What legal form should the BPSC take?
- Who do you want to be in the General Assembly? It should be a combination of the public sector, the labor office, and any other business support organizations, representatives of the private sector, banks, and other relevant stakeholders of the community
- Who should be on the Board of Directors?
- Do you want to accept people into the Board who are not in the General Assembly?
- What rights will the Executive Director have?
- Will there be any fees that the members of the General Assembly are asked to pay?

It is important that you hold regular meetings with the Board of Directors and the General Assembly to inform them of your activities, issues, and overall situation. They should provide strategic guidance but leave the operations on a day to day basis to the Executive Director. The statutes should be flexible enough to allow for the BPSC to service the needs of its clients without getting approval for changes from the General Assembly on a regular basis.

The other issue is whether you will register the BPSC as a non -governmental organization or will you register it as a limited liability company. You need to research your options according to the national law. Talk with other similar organizations if they exist in your region and country.

## **Step 5: Hire the appropriate staff and train them**

This is one of the most important steps in order to increase the chances of success for the Business Promotion and Support Center. The basic profile of the staff, which is needed in the beginning, is the following: an Executive Director, a Marketing Specialist, a Finance Specialist, and an Administrative Assistant.

The Executive Director should have entrepreneurial tendencies. This is fundamental to the success of the BPSC. This person will be leading an organization, which most probably will be a new institution on a local level, and there will be many people who will be negative towards the BPSC in the beginning. Preferably, the Director will also be able to speak a foreign language and will be respected by the local community. It is inappropriate to hire someone who is not from the local community.

The Marketing Specialist and the Finance Specialist should have competencies in their fields and express the willingness to learn more. The Marketing Specialist will be involved in establishing contacts with the national and international business community to make trade links

for the local companies. This person will also organize training programs. The Finance Specialist should establish good working relationships with banks that could lend to the clients of the BPSC and other institutions who are interested in financing activities of SMEs (venture capital, leasing, etc.). This person will also help the client entrepreneurs and businesses to prepare their business plans.

A comprehensive training program for staff development needs to be made as soon as the Executive Director understands the profiles of the staff. Common training needs in the beginning include Marketing, Marketing Research, Customer Service, Finance, Business Plan Writing, Proposal Writing, Presentation Skills Training, Running Effective Meetings, Time Management, and there should be others.

## **Step 6: Develop mission statement and strategic plan**

It is fundamental to the long-term success of the BPSC to understand what the organization and its people would like to achieve long term. A mission statement for the BPSC might include the following concepts "striving to address issues of micro, small and medium-sized enterprises by providing high quality business services" and should not be longer than 25 words. You should have a clear understanding of what you would like the organization to accomplish since you have completed a thorough assessment of the Local Economic Situation (Step 1) and you understand the needs of your potential clients (Step 2).

The strategic plan for the BPSC will be a work in progress. It will not be a final document that you cannot adapt and change if the local reality changes. In the Strategic Plan, you should include the mission statement, an overall assessment of the local situation, an analysis of your target clients and what types of services you would like to offer them, an overview of your competition, your pricing strategy, your relationships to develop and/or expand upon with other relevant stakeholders in the community related to local economic development, your staffing needs and training needs, and, finally, a cash flow statement for the BPSC for at least two years.

The cash flow statement is essential to have in order for the BPSC to understand what percentage of the total income will be derived from servicing the target audience (most probably it will be low in the beginning). This will motivate the management of the BPSC to find other ways to generate income to cover the less financially profitable yet needed services. Other financial statements such as a balance sheet and income statement would also be very appropriate.

The strategic plan must be explained to the General Assembly of the BPSC and they must "buy in" to the strategic plan. They can be powerful allies in developing alternative sources of funding for the BPSC and they need the information in order to guide the center properly.

## **Step 7: Provide needed services (consulting, training, information)**

The three basic services that the BPSC will offer are the following: consulting, training, and information. What will differ are the percentages for the different services in terms of time dedicated from the center staff and income generated. Consulting services can be given on a range of topics from the Business Plan writing, explaining the requirements of local banks and other financial intermediaries (leasing, venture capital, etc.), to analysis and cost breakdown of a company's production line, human resource issues, management, and other topics. Clients are often hesitant to pay significant amounts of money for consulting.

Training programs can be both demand driven from the business community and they can be introduced to the community by the BPSC. Training programs will range from skill-based training such as foreign language training, computer courses, internet usage training, negotiation skills, presentation skills, to business development training activities such as Business Plan writing, Customer Service, Taxation Rules and Regulations, Export Marketing and other related topics. Customers are often willing to pay for training activities if they see a need, tangible benefits to themselves and their company, especially in the short term.

Information services can range from helping clients find customers, locally, regionally, and internationally, finding out where to buy used equipment for their companies, where to find other suppliers and such topics. The business community may be interested in finding out about upcoming Trade Fairs both national and international. Clients are often willing to pay a small amount for information provided.

Other services may be offered if they fit into the profile of the BPSC and are needed in the community. This is very normal, for example, the BPSC in Vidin in Bulgaria, organizes International Trade Fairs as a service to the business community. Another BPSC publishes a business newspaper because there was no one else providing this service. Another organizes trade missions to other countries for a fee to the local companies. A particular BPSC that functioned in Bulgaria had a weekly Business Show on the local radio. It was very popular because it not only had some music, but it highlighted best practices on a local and global level, it presented a case study, and gave business information and contacts during the radio program. Some BPSCs organize Business people's Clubs in the community so that local businessmen and women can network and "do business" together. A few of these "other" services could generate significant income and profit for the BPSC while others are less profitable.

## **Step 8.: Introduce new business development tools into the community**

A fundamentally important function of the BPSC, which is not expressly stated anywhere is to help create an environment where mentality changes will occur on a local level. This can be accomplished by introducing new tools for local economic development into the community. This will occur over time as situations arise. If the municipality is not active in terms of supporting private sector growth, the BPSC may find itself in a position where it takes the active role in the community. It may be the catalyst for new initiatives to bring in foreign investors to the community. Or the center may help the Local Labor Office become more market-oriented to provide the types of courses and vocational training that the growing private sector is demanding.

You may be asked to help on special projects that affect different sectors of the population than you normally work with. You may find it appropriate to invite an expert from that field or you may find it appropriate to bring people together and help them register a non-governmental organization to work more effectively on the issue at hand.

If the community has not had an opportunity to participate in the community economic renewal (CER) assessment and planning workshops described in Part I of this Guide to Community Economic Renewal (Part I is the CER Participant Workbook), the BPSC could help initiate this process in the community or region.

## **Step 9: Develop services that will generate income to cover all expenses**

This step is one of the most difficult initiatives to start and to develop. After the BPSC has been in existence for over a year and has gained the social acceptance of the community, the center must begin to think about and analyze how it can generate income to cover all of its expenses if it is currently being financed by a donor or by some other subsidy.

This transition should happen by carefully analyzing the local reality and the willingness to take risks including spending some precious money that the BPSC has earned by delivering services. Each BPSC that has become financially independent tried several different ways to earn money. Some of them failed or were not very profitable. But this is not an excuse not to try. There is always a way to earn money linked to the BPSC's mission statement, even in the most difficult environments for business. The key is in finding sufficient customers to serve, and in being innovative enough to develop and deliver the services they need and will be willing to pay a reasonable price for. This includes both public and private sector employers in the community and region.

## **Step 10: Monitor progress and results; adjust when and where needed**

After the BPSC has been functioning for a while, you will need to conduct an evaluation of the success. This is very important to do because in order to become better, you need to understand how the outside community perceives your organization. Often times, there is no time to do this and this can turn out to be a mistake because you need feedback from those who interact with you to get the full picture. This can be a self-evaluation, with the involvement of key stakeholders and your clients, or you can hire an external evaluator to help you.

If you decide to conduct this evaluation yourself, you need to talk with your existing clients (randomly select 10-30), develop a questionnaire and ask each of them the same questions. You should include the following questions:

- What do they like and dislike about the BPSC
- how has it been helpful to them in their business
- what should it offer that it currently does not
- other questions that you feel are appropriate

You can organize a focus group, where you bring together a selected few clients and ask them to discuss some predetermined topics. An expert facilitator best manages this process. You should also consult with the General Assembly and other stakeholders in the community.

After you have gathered the feedback, you need to analyze the comments and make appropriate changes or modifications in the way the BPSC does business. This is a very important process that the BPSC needs to conduct on a regular basis in order to be providing the services the growing private sector needs. The BPSC needs to GROW with its clients, this means

changing and adding on to the services it provides in order to properly serve the needs of its client base.

## Chapter 6

# Organize cooperative businesses to create jobs

### Cooperatives, employment, and economic renewal

For many years cooperatives—democratic “mutual self-help” organizations or “people-centered businesses” with social and economic aims—have been in the forefront of the struggle to improve the economic and social well-being of people throughout the world. It is, therefore, appropriate that cooperatives be given a greater role in this era of pervasive employment problems and poverty in developing countries, rising unemployment and underemployment, economic restructuring and social disruption in central and eastern Europe, and persistent high levels of unemployment in western Europe and North America.

A report for the 1993 ILO Experts on Cooperatives meeting concluded that “it is fully agreed that the co-operative sector can effectively augment public and private profit-oriented sector efforts to solve pervasive employment and income problems.” The report further noted that small-scale enterprises and co-operatives can adapt more readily to economic crises.<sup>1</sup>

Research studies, empirical evidence and published and unpublished examples from around the world support the conclusion that cooperatives have considerable employment- and income- generating potential. Cooperatives can play an important role in creating self-employment and income for vulnerable, disadvantaged groups such as women, youth and the poor... Cooperatives can improve the economic social and cultural situation of persons of limited resources and opportunities as well as encourage their initiative. As people-centered businesses, they are an ideal way of combining economic and human development. Cooperatives can also help increase national income, export revenues and promote employment through better resource utilization.<sup>2</sup>

Other experts have noted that successful business enterprise in the twenty-first century will depend on increasing levels of cooperation by everyone involved in the world of work. The democratic principles governing cooperatives promote this objective and thus contribute to business success and job generation. According to one writer, “workers’ productive and industrial cooperatives are the best means to create a new relationship between workers and the workplace, and to bring about another Industrial Revolution.”<sup>3</sup>

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<sup>1</sup>ILO, *The role of co-operatives in the promotion of employment and income in the rural and informal sectors. Report 3: Meeting of Experts on Co-operatives, Geneva, 29 March–2 April 1993*. Geneva: ILO, 1992.  
2Ibid., pp. 27–28.

<sup>3</sup>A.F. Laidlow, *Cooperatives in the year 2000*, Studies and reports, London: International Cooperative Alliance, p. 66.

## Some basic information about cooperatives

### Definition of “cooperatives”

Giving a universal or conceptual definition of cooperatives, a specific kind of association, is difficult because cooperatives have many different forms. Some forms are specific to countries and to regions, some have historical origins and some have arisen over a period of time. To avoid an extended or technical discussion, this chapter uses the ILO definition of cooperatives:

A cooperative...is an association of persons who have voluntarily joined together to achieve a common end through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which members actively participate.<sup>4</sup>

A cooperative is a business owned and controlled by the people using its services (client-owned cooperatives) or working in it (worker-owned cooperatives) to mutually increase their income or enhance their standard of living.

People cooperate—work together—to achieve things they cannot achieve alone. Many people view co-operatives as a way to gain greater control over their working lives through democratic decision-making and ownership.

Many cooperators view cooperation as a more efficient and profitable way to:  
obtain production supplies;

- process and market their products or services;
- provide production and marketing related functions;
- obtain otherwise unavailable or more beneficial services;
- pool their savings and obtain credit at reasonable rates;
- mobilize their resources to create new or more efficient business enterprises; and
- provide jobs and economic opportunities in their neighborhoods and communities.

Cooperation promotes not only the interests of the members, but the progress and welfare of the larger community.

Cooperation is not new. It has been around since people first found that it was more beneficial to hunt together than separately.

In the mid-1820s a cooperative movement with definite social as well as economic aims emerged in New Lanark, Scotland, under the reforming industrialist Robert Owen. In 1844 the famous Rochdale Pioneers in England established the Equitable Society which envisaged a broad program of integrated economic development. Subsequently, farmers, in western Europe and North America organized co-operatives to help them purchase seeds and fertilizer, process and market their crops, and build prosperous farms and an efficient agricultural sector. Craftspeople and consumers also benefited from the organization of co-operatives.

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<sup>4</sup>See: The Co-operatives (Developing Countries) Recommendation, 1966 (No. 127). Geneva: International Labor Organization.

Today, countless millions of individuals and groups throughout the world have adopted cooperative principles of organization.

## Cooperative principles of organization

Seven internationally recognized cooperative principles are:<sup>5</sup>

1. **Voluntary and open membership.** Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.
2. **Democratic member control.** Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and decision making. In a worker coop, worker-members have a right and obligation to participate in the decision making that affects them.
3. **Member economic participation.** Members contribute equitably to, and democratically control, the capital of their cooperative. In a worker coop, all worker coop members gain or lose together. No single member benefits at the expense of other members.
4. **Autonomy and independence.** Cooperatives are autonomous self-help organizations that are controlled by their members.
5. **Education, training, and information.** Cooperatives keep their members informed and provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives.
6. **Cooperation among cooperatives.** Cooperatives serve their members most effectively and strengthen the cooperative movement by cooperating with one another.
7. **Member equity.** A cooperative assumes member equality in all decision making, equity in the valuation of each member's work contribution, and mutual self-help. Cooperatives are concerned about people, responsibility and business success.

One way to assess the employment potential of cooperatives is to determine the members' relationship to the cooperatives they set up and own. Is their relationship that of clients of the enterprise or workers in it? When viewed this way, there are two basic categories of cooperatives: 1) "client-owned," and 2) "worker-owned".

Cooperatives can also be classified according to their functions: single-purpose cooperatives, or multi-purpose cooperatives. Single-purpose cooperatives—created to carry out one specific function—are the most common. Multi-purpose co-operatives carry out several client functions in the same organization.

## Different cooperative forms

Cooperatives flourish in several different fields and are organized in federations that maintain friendly inter-cooperative relations. Many people, directly or indirectly, belong to, work in, or buy from co-operatives on a regular basis, including:

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<sup>5</sup>Co-operative Management and Administration. 2nd edition. Geneva: International Labor Organization, 1988. The six principles were revised in 1996 by the International Cooperative Alliance. The seven ICA principles in this document appear in abbreviated form.

### **Child-care cooperatives**

Some working parents pool their resources and efforts to form child-care cooperatives to provide, control and maintain good child-care at reasonable cost.

### **Community cooperative businesses**

Some people in a geographical community directly own and operate cooperative multi-functional businesses to provide local services that are otherwise unavailable and to create jobs. Membership is usually open to all who live in the area. Profits are used for further local investment, community benefit projects and bonus payments to the workers. In Scotland, over 100 of these cooperatives provide 4,000 jobs.

### **Consumer cooperatives**

Some retail establishments (including food buying clubs, grocery stores, bookstores and department stores) operate as cooperatives. Some large consumer cooperative sectors in Sweden, Great Britain, Japan and Switzerland open membership to all shoppers.

### **Craft cooperatives**

Some people who produce crafts at home form craft cooperatives (producer cooperatives) to purchase supplies and services at less cost and to market their products more profitably. Craft cooperatives have gained in popularity in the U.S. and abroad.

### **Credit cooperatives**

Some groups who share a common bond form self-help savings and loan cooperatives to pool their savings to provide loans at fair interest rates to their members while earning a reasonable rate of interest on their savings. Credit unions and credit co-operatives are an important element of the economies of many countries world-wide.

### **Housing cooperatives**

In many countries, people form housing cooperatives to build, maintain and manage their residential property.

### **Marketing, service and secondary cooperatives**

Co-operatives, small businesses and individual producers organize these forms of co-operatives to provide themselves with services and marketing expertise they cannot afford individually. Marketing cooperatives are widespread in Europe and have rapidly expanded in Great Britain as a result of major changes in European Union trading regulations which occurred in 1992.

### **Producer cooperatives**

Agricultural, horticultural and fishing producer cooperatives help farmers and fishermen purchase supplies, process and market their crops or products in more profitable ways. They are an important part of the western European, North American and world agricultural sectors.

### **Worker-owned cooperatives**

Worker cooperatives are unique because workers form them to provide themselves with employment and income along with ultimate ownership and control of the enterprise. Through their ownership and control they receive a fair share of the profits and enjoy greater workplace

democracy. Worker-owned cooperatives are found in manufacturing, services, shipbuilding, food products, restaurants, computer software, engineering, reforestation, construction, and many other industries.

*Labor-contracting cooperatives* are another form of worker cooperative. Their primary purpose is to provide employment and income for their members. These cooperatives allow individuals to join freely together to sell (contract) their labor as a group to other businesses or governments on terms that are advantageous to them. They differ from worker-owned industrial cooperatives in so far as they do not own a business enterprise in which they work to produce goods or services for sale to the public.

In recent years, there has been a world-wide resurgence of interest in employee-owned businesses and worker cooperatives, primarily because of their job-creating potential. In the U.S., about 800 worker-owned cooperatives and several thousand democratic Employee Stock Ownership Plans (ESOPs) employ over 100,000 workers. In European Union countries, some 500,000 people work in the worker cooperative sector. In the United Kingdom, about 1,400 worker and community cooperative businesses employ about 20,000 people. In Quebec, Canada, over 15,000 people are members of worker-owned cooperatives. In Spain, there are over 130,000 workers who own cooperatives and labor-limited companies operating in manufacturing and service industries. Worker cooperatives are also present in some Central and Eastern European countries. In 1998, Poland had 1,200 worker-owned industrial cooperatives employing 200,000 worker owners.

### **Cooperative complexes**

A systematic approach to economic development in a community or region can lead to the establishment of a co-operative complex. The co-operatives in an area or region are integrated into a dynamic “system” that may include several different forms of co-operatives.

The Mondragon group of industrial worker cooperatives in Spain, founded in 1956, has evolved into a highly successful cooperative complex. It includes a cooperative bank and an entrepreneurial development unit that work together to organize new job-creating cooperative businesses, a health and retirement system, consumer cooperatives, housing cooperatives, day-care cooperatives, educational cooperatives, and a research and development institute that generates high-tech innovations for member industrial cooperative businesses. The Mondragon cooperative complex has been in operation for nearly fifty years. It provides jobs for over 28,000 worker-owners and generates sales of over US\$3 billion per year.

### **Legal structures for cooperatives**

In most countries new businesses can be organized as unregistered or unincorporated or sole proprietorships. When several people band together to carry on business with a “view to profit,” the law regards them as a partnership whether or not they have a written agreement. However, neither sole proprietorships nor partnerships give the owners the advantages of limited liability. Each owner or member is held responsible for the full amount of debt that the business incurs.

Because financial liability is a serious matter, many would-be entrepreneurs, including cooperators, almost always seek to obtain limited liability at the outset. This can be done by incorporating as a cooperative under state or national cooperative statutes or by incorporating as a for-profit business under national, provincial or state incorporation statutes. Generally speaking, these documents are prepared by lawyers for a fee and are filed with the appropriate

government office. Once a cooperative is incorporated, the members' liability is limited to the extent of their shareholding.

The founders of cooperatives with social as well as economic objectives usually wish to build cooperative principles into their business by-laws. The constitution of a company or cooperative is set forth in its articles of incorporation. They state exactly how and for what purpose the business is to be set up and run. However, very few limitations are laid down.

Considerable experience has been gained in operating cooperative businesses and a variety of legal structure have been developed for all kinds of cooperatives. Model outlines for cooperative articles of incorporation and sample by-laws are usually available from the cooperative movement and government cooperative agencies. For example, in the U.S. the Agricultural Cooperative Service of the U.S. Department of Agriculture has drawn up sample by-laws for agricultural, craft supply and marketing cooperatives. Individual marketing contracts are available for craft people.

*Agricultural coops* that intend to market produce usually incorporate under the cooperative laws established by most national governments. Marketing or secondary cooperatives can incorporate under national cooperative statutes or provincial or state incorporation laws, whichever are most suited to the organizers' needs.

*Worker-owned coops*, because of their need for specialized capital and organizational arrangements, can be incorporated under special industrial cooperative statutes passed by national, state or provincial governments. In those countries, provinces, and states lacking specialized legislation, worker cooperatives can be organized under regular cooperative statutes or corporation laws, whichever are more suited to the organizers' needs. In Britain, model by-laws have been made available through the work of the now defunct National Cooperative Development Agency and Local Cooperative Development Agencies.

In the United States, several states have passed special worker cooperative laws (Massachusetts, Vermont, New Hampshire, New York, Washington and Oregon) to facilitate the organization of modern industrial worker cooperatives. Model by-laws for worker cooperatives have been drawn up by the Industrial Cooperative Association and are published in worker cooperative handbooks such as *Putting Democracy to Work*.<sup>6</sup>

## Key considerations when setting up cooperatives

It is important for the organizing groups of cooperatives to determine the issues that are to be fixed absolutely and written into the articles of incorporation, the issues that are to be dealt with flexibly and written into the by-laws, and the issues that could be resolved from time to time by means of committees or other rules.

The organizers also need to examine the articles of incorporation and by-laws to ensure that the new cooperative business maintains a cooperative ethos based on the seven basic cooperative principles. In the case of worker cooperatives, the articles of incorporation and by-laws must include the following **four supplementary worker cooperative principles**:

1. worker cooperatives must be owned by the suppliers of labor, the workers;
2. all workers must become worker-owners;

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<sup>6</sup>Frank T. Adams and Gary B. Hansen, *Putting Democracy to Work: A practical Guide for Starting and Managing worker-owned Businesses*. Rev. Edition. San Francisco and Eugene: Berrett-Koehler and Hulagos'I, 1992.

3. the workers, as owners of the enterprise, must decide on the disposition of new income from the business; and
4. worker-owners, in their capacity as suppliers of labor and not as suppliers of capital, must control the enterprise and the benefits must be divided among them.<sup>7</sup>

## **Other issues organizers of cooperatives must consider**

### **Membership**

In fostering democratic control, one-person one-vote, some power sharing is necessary.

In a marketing or secondary cooperative, membership should be open to all in the business sector. Question: How will that sector be defined? Will employees be members? How will disputes be resolved? (Members may also be business rivals.) If it is not a cooperative, will it cause double taxation?

In a worker-owned coop, membership should be open to all employees without discrimination. Question: How long should they serve before being entitled to join? How many hours per week should they work to be regarded as employees? Is there to be a minimum or maximum age? Are non-employee members wanted? Is it possible or necessary to gauge commitment to the cooperative and its ideals before employees are entitled to join? What about employees who refuse to join?

In a community cooperative business, membership should be open to all in a community without discrimination. Question: How will that community be defined? by geographical area? by community of interest? Will employees in the enterprise be members?

### **Policy making, execution and accountability**

Cooperative management consists of assigning tasks to people, allowing them to perform the tasks without interference and holding them accountable for the outcomes. Question: Will there be collective management? Will an outside manager be hired? Is a management committee needed? Is a designated manager required as chief executive? How will management's performance be monitored? By whom? How often?

Business organizations usually appoint boards of directors. Question: How will they be appointed? To whom are they accountable? The whole membership? Is the chairperson to be "leader" or "facilitator"? Are roles to be rotated? How and in what form will financial information be provided to the members?

It is the members' responsibility to decide policy at general meetings, and the management's job to execute those decisions. Question: How frequently should general meetings be held? How much or how little do members need to know? What arrangements will ensure that sufficient meaningful information is available to them to base their policy decisions on?

Regarding personnel matters and interpersonal relationships, it is important to establish a suitable framework for group interaction, decision-making, and dispute resolution. Question: How will members be encouraged to participate at meetings? How will disagreements be resolved? How much consensus can be achieved? What if a deadlock occurs? Is an elected employees' committee structure (or trade union) desirable? Are maximum pay differentials to be

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<sup>7</sup>Gary B. Hansen and E. Mogensen, *Working Together to Create Jobs: A guide to Worker-owned Cooperative Development*, Bangkok: ILO Regional Office for Asia and the Pacific, December 1994, p. 10.

laid down? How will education and training for the membership be handled? What about members who are uncommitted, idle or malingering? How will unsuitable worker-members be fired? What appeals procedures are desirable?

## **Capital**

In a worker-owned cooperative, labor hires capital. In a client-owned co-operative, members hire capital.

Every enterprise requires money to start up, to operate and to expand. This money should be “locked in” as working and fixed capital. Question: How much should each individual member provide? a nominal sum? a substantial sum? an equal sum? a contribution “up front”? In a worker cooperative, can the capital investment be paid through sweat equity? (Deductions from wages are “sweat equity” rather than a money contribution.) Will certain members provide guarantees for the coop? If so, how will they be protected? What return, if any, will be paid on membership shares?

If the objective of community cooperative businesses is to develop and nurture new enterprises, can they be spun off into autonomous businesses?

## **Sharing profits among members**

In a cooperative, the profits belong to the members and are to be distributed in a fair and mutually agreed to way. Question: How much surplus is to be apportioned to reserves? Should this be held in common or distributed to individual capital accounts? How much cash should be distributed as patronage dividends (or as a bonus in a worker co-operative)? Should it be an equal lump sum or pro rata to patronage, hours worked, wages earned or goods contributed for sale? Are there adequate safeguards to prevent an untimely break-up of the business in order to turn the asset reserves into cash?

## **Ownership of assets**

Members contribute equitably to, and democratically control, the capital of their cooperative. However, there are different approaches to the ownership of cooperative assets. Question; How much of the capital should be the common property of the cooperative? Modern worker cooperatives in Spain and the U.S. are designed to allow the worker-owners to acquire an increasing capital stake by receiving a share of yearly profits. Some of the profits are paid out as a bonus, and some are added to the workers’ individual capital accounts. Workers can withdraw their capital stake at retirement or departure. However, some worker cooperatives in Britain follow the Industrial Common Ownership Model that does not allow this.

If the cooperative is disbanded, any assets remaining must be distributed. Question: Should the members be considered co-owners and receive the residual assets of the enterprise, or should there be common ownership and the residual assets be held in trust for the larger community?

## **The next steps**

If, after informal discussions of some of the foregoing issues, a group decides to consider setting up a cooperative, a person familiar with the organizing process should be sought to help lay out the formative steps. If additional interest is shown and the group votes to continue its exploration, a meeting of potential members should be held for a factual presentation of the

proposed cooperative. The meeting should discuss the purpose(s) for setting up the cooperative, including evaluating its potential to accomplish its purpose(s) and information about the experiences of similar cooperatives.

If the organizing group votes to proceed, a steering committee should be set up to provide information to the organizing group and to conduct the necessary research, or obtain competent outside help and serve as a go-between. Also the group should talk with others who have set up the same type of business to learn from their experiences, avoid mistakes and not incur unnecessary costs.

Depending on resources available and interest shown by sources of specialized help, the organizing group should request a person from one or more of the following organizations to serve as an advisor:

- a cooperative specialist from the local or national cooperative department if one exists, or
- a specialist from a local economic development agency or small business development center, or
- a business extension specialist or knowledgeable business school professor from a local educational institution, or
- an expert from a cooperative federation, national cooperative organization, or international organization such as the International Co-operative Alliance or International Labor Office.
- one of the non-profit technical assistance organizations (NGOs) that specialize in helping to organize cooperatives.

Setting up a cooperative business also requires competent legal advice to select the form of incorporation most suited to the enterprise. Available legal advice, such as an attorney familiar with national or state cooperative statutes, should be identified and consulted. Financial counsel regarding capital needs and methods of finance should be sought from a banking institution early in the process. Also assistance may be needed to develop a business plan and think through the many issues incident to setting up a cooperative.

It is essential not to underestimate the time needed for the planning and incorporation stages. It takes time to write a full and accurate business plan for a proposed cooperative. Even under the best of circumstances, obtaining money to start a business requires considerable time and effort.

## **A final note about cooperative economic development**

A critical ingredient for success when organizing a cooperative is the whole-hearted commitment of the majority of the members to the long-term survival of the business. Organizing a cooperative requires a high degree of motivation among the members themselves. Sufficient motivation is unlikely to be achieved if imposed from above or outside.

Responsibility for starting a cooperative and seeing the project through rests mostly with the leadership group.

Like attaining the better things in life, cooperation is not an easy route. But the extra effort and commitment required bring ample rewards.

## Using “group entrepreneurship” to create jobs

Fifty years of experience demonstrates that the existing approaches to increase employment and business creation have failed to help the majority of people in desperate need of jobs and income in the developing countries, the newly emerging democracies of central and eastern Europe, and among the disadvantaged and poor in the European Union and North America.

One way to increase employment and business creation is to use group or cooperative forms of entrepreneurship. Group or collective approaches to entrepreneurship can successfully create enterprises, particularly in economically depressed areas and communities facing serious unemployment or development deficiencies. Experiences in a number of countries demonstrate that the function of the small business entrepreneur can be institutionalized, expanded and strengthened by using dynamic, specialized organizations which function as proactive creators and incubators of new businesses. One historical and one recent example illustrate this innovative approach.

### China: the Indusco System

The innovative Indusco worker-owned cooperative system of group entrepreneurship (the “Gung Ho” cooperatives) was developed in war-torn China in 1938 by Americans Helen Foster Snow and her husband Edgar Snow, New Zealander Rewi Alley, and their Chinese associates. After carefully evaluating the needs for goods and services, the available resources, and the desires and skills of the Chinese people, “Gung Ho” industrial cooperatives were systematically organized to create jobs and stimulate economic development.

From the outset, carefully selected entrepreneurial teams of trained engineers and technicians taught groups of Chinese displaced by war the leadership, technical skills, and organizing ability they lacked. The Indusco founders developed various kinds of technical and managerial training for the members of the cooperatives based on the cooperative entrepreneurship principles. Eventually, residential schools with student-run cooperative enterprises were established to train the next generation of leaders in the technical, managerial and cooperative principles needed to successfully organize and manage industrial worker cooperatives. From 1938 to 1945, the Indusco cooperatives spread rapidly. Several thousand new cooperative manufacturing enterprises created jobs for 30,000 workers.<sup>8</sup>

Because of the political infighting within the Kuomintang and between Chiang Kai-shek and Mao Tse-tung, the Indusco system eventually lost its leadership and momentum. However, during its ten years of existence it successfully demonstrated the importance and value of “cooperative entrepreneurship” as a means to promote large-scale economic and employment development.

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<sup>8</sup>For a contemporary picture of the Indusco system see Nym Wales, *China Builds for Democracy: A Story of Chinese Industry*, (New York, 1941); for a brief overview and evaluation of the Indusco experience see: Gary B. Hansen, “Using Cooperative Entrepreneurship for Job and Enterprise Creation in Developing Countries and Eastern Europe.” Paper presented at the Conference on Internationalizing Entrepreneurial Education, Training and Research, Pembroke College, Cambridge University, 1–5 July 1991.

With the recent emphasis on privatization, efforts were begun in 1995 in China to promote a revival of the Indusco model for enterprise and employment development as part of current enterprise and employment creation efforts at the local level.<sup>9</sup>

## **Spain: Mondragon and the Basque Region**

The Mondragon complex in northern Spain is a dynamic worker cooperative approach to economic development that has revitalized the economy of the entire region. Beginning in the mid-1950s, a Catholic Priest, Don Jose Maria Arizmendiarieta, and some young engineers in the Basque area of northern Spain independently discovered the underlying Indusco worker cooperative entrepreneurship principles. Based on a previously established technical educational institution, they forged cooperative principles into the dynamic and highly successful Mondragon Group of industrial cooperatives for enterprise and employment creation.

The Mondragon group entrepreneurs develop venture capital through a cooperative development bank (the Caja Laboral Popular) that mobilizes community savings to develop new industrial cooperative enterprises. Using this capital, the group's full time enterprise development unit systematically identifies new business opportunities, conducts feasibility studies to ensure their viability, recruits prospective worker-owners willing to invest their time and money in a starting new enterprise, helps find competent professional managers, and assists the manager and workers launch a new job-creating industrial cooperative business. By systematically incubating new businesses to create jobs and wealth in their communities, the Mondragon group has served as a powerful engine of economic development in the Basque region of Spain.

From 1967 to 1976, employment in the Mondragon system grew at a rate of about 15 percent annually while the national market grew at a rate of only 6–7 percent. When the Spanish economy stagnated from 1977 to 1986, the Mondragon system created 4,200 jobs while the Basque region lost over 150,000 jobs. As one observer said, “compared to the general conditions in the Basque country, the performance of the co-operatives must be considered extraordinary”<sup>10</sup>

During the severe recession of 1981–82, the region experienced an official unemployment rate of 16 percent in 1982, but only 30 of the 18,000 worker-members of the Mondragon cooperative complex became wholly dependent on the unemployment fund of the system.<sup>11</sup> Mondragon avoided redundancies through a combination of belt-tightening and transferring members between industrial cooperatives. In all, about 1,500 people were transferred temporarily and 400 were transferred permanently. From 1987 to 1992 the Mondragon cooperatives created 1,800 new jobs.

Today, Mondragon has over 130 industrial cooperatives and employs more than 28,000 worker-owners. In 1992 the Mondragon Group reorganized to create a new ownership framework, the Mondragon Cooperative Corporation, to help them continue to grow, remain

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<sup>9</sup>There have been several attempts to resurrect the Gung Ho co-operative movement in China after its demise in the mid-1940s. The most recent attempt is being promoted by the International Committee for the Promotion of Chinese Industrial Co-operatives, headquartered in Beijing. The Chinese Government is also discussing the possibility of having the ILO provide technical assistance to start an Indusco type project as well.

<sup>10</sup>William F. Whyte and Kathleen K. Whyte, *Making Mondragon: The Growth and Dynamics of the Worker Cooperative Complex*, Ithaca: ILR Press, 1988, 1991.

<sup>11</sup>Hans Weiner and Robert Oakeshott, *Worker-Owners: Mondragon Revisited*. London: Anglo-German Foundation, 1987.

competitive, and expand into other industries and countries of the European Union. Projected employment for 1996 was been set at 35,700, an increase of 9,300 over the 1993 employment.<sup>12</sup>

## **California: Arizmendi Development and Support Cooperative**

A recent small-scale attempt to use the Mondragon approach to facilitate group entrepreneurship and systematically create jobs is being carried out in the United States by the Association of Arizmendi Cooperatives established in 1996 in Berkeley, California.<sup>13</sup>

The Association of Arizmendi Cooperatives is composed of delegates from member cooperatives and the Arizmendi Development and Support Cooperative (DSC). A Board of Directors, called a Policy Council, is its governing body. The DSC staffs the Association and provides business, educational, organizational, financial, and other services to members and develops new cooperatives as directed by the Policy Council.

Member cooperatives pay a fee to the Association sufficient to support staff services, coordination among the stores, and development. Plans called for at least two new cooperatives per year beginning in 1997. Financing to start the new enterprises comes from loans from institutional backers and members' individual investments.

The Association was initially comprised of the Cheese Board Cooperative and the Arizmendi DSC. The Association of Arizmendi Cooperatives and its enterprise-creating strategy evolved from linkages among local worker-owned businesses spurred by discussions between a Cheese Board veteran and a co-op developer to expand cooperatives by duplicating successful ones. After being joined by another Cheese Board member and a lawyer, the organizing group formed as a Development and Support Cooperative.

The objective of the Association and its member cooperatives is to systematically generate new worker-owned enterprises and jobs in the surrounding region. As part of this local economic development strategy, the first "Arizmendi worker-owned Cooperative" opened in Berkeley with 11 to 12 worker-members in the fall of 1996 after receiving a long-term seed loan from the Cheese Board.

Cheese Board members of the DSC provided the basic baking-skills training. Members of the new Arizmendi worker cooperative then operated the Cheese Board bakery one day a week (for pay) to gain experience, with only occasional guidance from DSC staff. A feasibility study showed the new business breaking even the first year. Expectations are that the number of worker-members will increase to 25 by the end of the 5th year when revenues are expected to double the \$600,000 generated during the first year.

This new worker-owned cooperative offers an additional source for the widely acclaimed breads and other baked goods and pizza of its parent cooperative, the Cheese Board. The 25-year old Cheese Board is known for its personalized service, quality, reasonable prices, and wide selection. Ten years ago they added baked goods and pizzas to their product line. Because of higher profit margins for baked goods and the large inventory and extensive training required for cheese, the first Arizmendi worker cooperative focused on baked goods and pizza. Creative

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<sup>12</sup>Bcleren Bakaikoa, "The Effects of the Economic Crisis on the Mondragon Cooperative Corporation," Paper presented at the Annual Conference of the International Institute for Self-Management, Long Island University, Brookville, New York, June 8, 1993.

<sup>13</sup>Based on supplied by Jacques Kaswan.

product development has led to increased revenues, and Cheese Board worker-members receive about double the average industry wage. All members are paid the same rate.

The DSC developed business plans for the new co-op and the Association. An invitation was extended to anyone interested in becoming a member of a new Arizmendi worker-owned bakery cooperative to attend some orientation workshops. Of the 130 or so who attended the DSC's two orientation workshops, 35 paid a nominal fee to attend three additional information workshops. Of those 35, 28 people applied for membership, and 15 were selected after interviews.

Their initial training focused on principles of group process and on democratic organizational development, governance, and management. The Cheese Board provided product demonstrations and practice opportunities. Ongoing training focused on organizational issues, including how to run meetings and select a site. Guidelines and policies are decided at weekly meetings. Task groups work out details and proposals such as site selection, finance, personnel, and organization and development. Facilitation training through the latter assures that all meetings are guided by members.

## Requirements for successful large-scale group entrepreneurship

The urgent world-wide need for successful approaches to generate new enterprises and employment has brought about a renewed interest in group entrepreneurship. The requirements for establishing systematic group entrepreneurship and worker cooperative development programs have been identified, and the basic steps to successfully launch such programs have been worked out.<sup>14</sup> These approaches are based on a careful review of the successful experiences of the Indusco and Mongragon cooperative complexes, and then designing group entrepreneurship approaches that can be utilized in developing and industrialized countries where facilitating job creation and economic renewal are critical issues.

In the absence of a formal entrepreneurship development unit such as that used by the Mondragon complex in Spain or the nascent Arizmendi Development and Support Cooperative set up in Berkeley to facilitate the worker cooperative incubation and startup process, how does a group of people who want to become group entrepreneurs go about doing so? The following "Getting Started" section describes the basic steps to start new employment creating worker co-ops.

### Getting Started

## Steps to start new job-creating worker cooperatives

*[The following steps have been adapted from Steps to starting a Worker Co-op, by Gary B. Hansen, E. Kim Coontz and Audrey Malan, Center for Cooperatives, University of California and Northwest Cooperative Federation, 1997.]*

<sup>14</sup>Gary B. Hansen and E. Mogensen, *Working Together to Create Jobs*, ILO Regional Office for Asia and Pacific, 1995; Gary B. Hansen, *Using Cooperative Entrepreneurship to generate employment and income in developing countries and Eastern Europe*, Logan: Utah Centre for Productivity and Quality, Utah State University, May 1993.

The catalyst for forming a worker co-op is the shared belief of a group of people that the cooperative approach to entrepreneurship is the best way to meet mutual needs.

As with any new business, starting a worker co-op should begin with a clear mission--providing meaningful employment and income, obtaining greater control over the workplace, or achieving job security. It involves thorough and careful business planning to ensure a strong foundation to increase the likelihood of success.

Responsibility for starting a worker co-op and seeing it through rests primarily with the organizing group. The organizing group shapes the new co-op through the start-up phase and keeps it going.

## **Step 1: Collect information, clarify needs, and assemble the organizing group**

This step lays the foundation for a group to make an informed decision about whether to start a worker-owned cooperative.

### **Guidelines**

An organizing group should consist of potential worker cooperative member-owners. The most effective number of participants is 5 to 15. The organizing group must be prepared to devote substantial time to complete the necessary research, attend weekly or bi-weekly meetings, and participate in committee work throughout the organizing process.

Members of an organizing group or a subcommittee should begin by collecting materials, facts and data about worker coops: what worker-owned coops are, how they operate, how they differ from other for-profit businesses and other types of cooperatives, and what elements are needed for successful worker coop entrepreneurship. The group should also collect materials, facts and data about starting a business.

### **Business ideas for worker-coops**

Preliminary research should be conducted about a group's business idea (if it has one). If a group has more than one business idea, develop some screening criteria to determine the most promising ideas.<sup>15</sup> The Venture Selection Criteria form developed by the Westcoast Development Group and reproduced in Appendix I illustrates one way to carry out this task.<sup>16</sup>

Two types of questions need to be asked when evaluating business ideas: (1) questions that identify the prospective members' entrepreneurial objectives; and (2) questions that clarify the business and political environments.

Clearly identify the group's mutual needs and expectations that the coop could address. Consider such things as shared objectives, interests and abilities, the business idea product(s) or service(s), ownership and capital structures, level of income, and how profits are to be dispersed.

Questions that can help determine whether a business idea is viable are:

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<sup>15</sup>One Canadian group developed the following criteria to guide venture selection for planning purposes: (1) employs group members, builds on group members' interests and skills; (3) provides a needed community service or product; (4) provides for significant training opportunities; (5) produces a unique service or product; (6) requires modest start-up costs; and (7) makes good use of existing natural resources. For additional information on this topic see: *Venture Development Basics: A Workbook*, Westcoast Development Group, 1991.

<sup>16</sup>Ibid.

- Is there a market for the product(s) or service(s)?
- Do other businesses offer similar product(s) or service(s)?
- Is the market large enough for all to make a reasonable living and grow?
- If the market is not a large enough, is the proposed product or service different enough or efficient enough to attract and hold sufficient customers to succeed?

If the answers to any or all of the above questions are negative, take another look at the business idea before investing any more time or money in developing it further.

Other activities to be carried out during Step 1 include:

- Identifying available advisory and consulting resources to help the organizing group.
- Collecting information about available financial resources.
- Identifying people who might share an interest in the co-op.
- Inventorying the organizing group's skills and experiences.

When human values and cooperative principles are as important as productivity and profits, worker co-ops can be used to operate enterprises in simple low-tech manufacturing or service sector activities to enterprises that produce very sophisticated products and services.

Industrial worker coops, the foundation of the Basque system of cooperatives in northern Spain, produce household appliances (refrigerators and stoves), machine tools, robots, and other personal services to name a few.

Throughout the world, worker coops are involved in manufacturing, food products, computer software, printing, furniture manufacturing, construction, solar heating, publishing, book distribution, grocery stores and restaurants, clothing, transportation, consulting, wholesale distribution, health care, subcontracting assembly work for automobile manufacturers, and personal services, to name a few.

Worker coops can be organized for businesses whose owners intend to retire or the shareholders want to put their capital to other uses. In such cases, the assets of the firms are sold or given to the employees, and the enterprises are reorganized as worker coops. Worker coops can be organized when a government plans to privatize an existing public enterprise. A worker-owned bus co-operative was organized in northern England several years ago. Worker coops can be organized as part of government-sponsored efforts to create new enterprises to generate employment; as happened in Spain and Britain in the 1970s and 1980s.

In developing countries, worker co-ops are involved in clothing, shoemaking, catering, candle making, furniture making, restaurants, ceramic brick making, wire weaving, consumer goods manufacturing, building construction, building maintenance, lighting fixtures and switch manufacturing, machine shops and foundries.

Business opportunities for worker co-ops seem to be limited only when ventures require such large work forces and capital investments (e.g., automobile assembly and oil refining) that cooperative values and operation are unfeasible or impractical.

The Basques in Spain have demonstrated that worker coops can be started and operated successfully in a wide range of industries and sectors, including major manufacturing enterprises. However, when their cooperatives reach 400 to 500 worker-members, they are encouraged to spin off new worker-owned enterprises to maintain a sense of community, solidarity, and participation among the worker-owners and between the workers and the management of their enterprises.

## **Key Decisions**

*Does the group share a mutual need and a viable business idea? Is a worker co-op the best way to address them?*

## **Step 2: Meet with potential members to discuss needs and vision. Coordinate organizing and business research**

### **Purpose**

Assess if the potential members are interested enough in starting a worker co-op to justify further research and planning. Elect a steering committee to collect the necessary information and prepare detailed plans to organize the new co-op.

### **Guidelines**

Hold an informational meeting for the people interested in organizing a worker co-op. At the meeting present and discuss the initial research findings. Vote on whether to proceed and determine how to obtain the funds to carry out additional research and pay the organizing costs. Set up an account to receive the funds raised for that purpose.

Establish a core decision-making group or select a steering committee. This group/committee is responsible for determining the potential members' interest, overseeing the selection of the business idea, collecting market and financial information, conducting a feasibility study, keeping the group informed of progress, developing a business plan and coordinating organizational meetings

### **Key decision**

*Does the group have sufficient interest in and commitment to start a worker-co-op?*

## **Step 3: Conduct a feasibility study and present findings. Obtain a commitment to proceed.**

Assess the feasibility of the business idea--potential customers, markets, expected volume of business, necessary equipment and facilities, estimated operating costs, capitalization, and financing options--to determine if the proposed worker co-op is likely to succeed and benefit the owner-members.

### **Guidelines**

Conducting a feasibility study requires the completion of numerous tasks. Individuals or subcommittees should be assigned to:

- Conduct preliminary market research and analysis to identify potential markets, discern the potential market niche, and define the operational technicalities, including how to manufacture and distribute the product(s) or service(s).
- Consider the skills and experience required to operate the business successfully.
- Identify special equipment, facilities, or licensing required.
- Calculate the costs of doing business and prepare financial projections. The initial financial projections and other findings must justify and support starting the business.

- Make comparisons and evaluate competition. Using the above answers, compare the proposed business with other businesses in the same industry.
- Explore sources of funding. Determine the amount of funds required to start and operate the proposed enterprise. Determine if members can contribute sweat equity and how much of a capital investment they would need to make. Investigate sources of funding, including alternative economic development and job creation funding sources, to see if they can be accessed.
- Prepare a written report

Utilize professional assistance when needed and available. Often it is necessary and beneficial to hire consultants or experts to help complete the feasibility study, write the business plan, or start a business.

After the written report is completed, the organizing group and potential members should meet to discuss the report and findings.

### **Key decisions**

*Is there a satisfactory market for the proposed business? Do the initial financial projections and other findings justify starting a worker co-op? Does the group have the requisite skills, knowledge, experience, and resources to start the proposed business?*

## **Step 4: Prepare and review the business plan**

Define how the co-op will be structured and financed. Approve the business plan and obtain a firm commitment, including a financial commitment, to legally form the worker co-op.

### **Guidelines**

A successful worker co-op relies on a detailed and thorough business plan. The business plan serves two main purposes:

1. It is the blueprint and basic guide for the members and managers when the co-op begins operations; and
2. It is the central document for securing a loan or other funding.

The business plan, a revised and expanded version of the feasibility study, outlines and defines every facet of the proposed co-op's potential business and operations. Appendix II at the end of the chapter provides more information about what should be included in a business plan.

Prepare the report for presentation to potential members. Discuss the business plan with potential members. Obtain their consent to proceed.

If approval is given to proceed, initiate funding. Get definite financial commitments from potential members. Prepare loan or grant documents to obtain any additional funding needed to start the enterprise.

### **Key decisions**

*Does the business plan substantiate the short- and long-term viability of the co-op as a business enterprise? Are the members prepared to commit their money and time to the start-up of the business?*

## **Step 5: Draft legal papers and secure membership and financial commitments**

Clarify organizational issues and prepare the legal papers required for incorporation. Secure the members' written and financial commitments.

### **Guidelines**

Consult an attorney experienced with worker co-ops to assist with this step.

*Select a name.* To conduct business and incorporate, the co-op must have a name.

*Prepare the bylaws.* The bylaws, or fundamental rules of the co-op, provide the legal framework to operate the business as a co-op. General areas covered by the bylaws include: who is eligible for membership; the parameters of member employment (e.g., the probationary period for membership, whether work is full- or part-time); specify members' capital contributions; how payroll or other distributions are to be made; define how net income or losses of the cooperative are to be distributed; identify how decisions are to be made; the roles and responsibilities of the board of directors and officers; how the board is to be selected; how membership and board meetings are to be conducted; how the co-operative is to be managed; ongoing education and training expectations; and how the bylaws can be changed.

*Design a membership agreement.* The membership agreement specifies the rights and obligations of the membership.

*Decide how to incorporate the business.* A worker co-op is strongly encouraged to incorporate because incorporation limits individual members' liability, provides the legal entity for business transactions, provides for the enforcement of the bylaws and membership agreements, and may provide tax advantages.

*Prepare articles of incorporation.* The articles of incorporation are the founding legal documents that give the corporation its legal existence.

*Secure membership commitments.* Prospective members become members when they sign the approved membership agreement and follow through on its preliminary conditions, including making an initial capital contribution.

### **Key decisions**

*Are the members committed to the co-op? Can the business be legally organized to accomplish the desired purposes?*

## **Step 6: Hold the cooperative's first, or charter, meeting. Define and accept roles**

Formally begin the worker co-op enterprise and accept the articles of incorporation and the bylaws.

## Guidelines

The primary purpose of the first membership meeting is to approve the legal documents and institutionalize the process of governing the new enterprise. If the cooperative membership is relatively small, members may decide to manage their business jointly as a collective without a formal board of directors and a hired manager. If the worker co-op is large or the organizers prefer to choose the more conventional governance structure, they need to elect a board of directors.

The first meeting has three items of business of critical importance:

1. Review and approve the articles of incorporation.
2. Adopt bylaws.
3. Convene the business or board meeting

It is important that the board carry out a number of activities at its first business meeting. These include: selecting a financial institution; arranging for bookkeeping and handling of finances; clarifying how roles are to be assigned and responsibilities fulfilled; determining training needs and arranging for them to be met; devising a plan to work with members to address start-up matters as set out in the business plan; and determining procedures to hire a professional manager if one is needed.

## Key Decision

*Are the incorporation articles and bylaws acceptable to the members and those who serve on the board of directors?*

## Step 7: Implement management. Prepare for business start-up

Implement the management structure--as a collective, teams, or general manager.

## Guidelines

Follow the steps set forth in the business plan; it is the blueprint for organizing the new business.

The selection of competent management is critical to the success of any new business start-up. If the management has not already been identified or hired, do so before starting operations.

If the co-op is small enough and the members choose to operate as a collective, the traditional manager's role may be divided among the owners, according to ability, interest, or pledge to learn those divided duties.

Manufacturing or service businesses that intend to grow beyond 15 to 20 worker-members probably need to seek an experienced manager from within or outside to help establish and manage business operations.

Select a manager who has the qualifications and skills to effectively manage business operations and whose management style is compatible with the cooperative's decision-making structure. Begin by clearly defining the manager's role, functions, and relationship to the board and other worker-members. Be certain that there is no ambiguity or misunderstanding about who has what authority and how the business is to be managed.

Secure financing and finalize agreements from all sources--members, grants, loans, purchases, and rentals. If some members fail to pay their capital contributions, follow up on their commitments. Use the business plan to seek additional debt capital to start the business.

Acquire the necessary facilities, licenses and permits.

### **Key decision**

*Is the worker co-op really ready to begin operations?*

## **Step 8: Start operations. Implement the business plan**

Begin operations.

### **Guidelines**

Once the co-op is incorporated, approves its bylaws and basic rules, hires or appoints a manager, acquires the necessary finances, and obtains suitable premises, it is ready to begin operations. The first task of the management and worker-owners is to implement the co-op's business plan. Aside from operational matters, the management:

- Develops community recognition by publicizing the opening of the worker co-op in the appropriate media to create name recognition and a positive image in target markets.
- Establishes and maintains ongoing communication about the co-op's performance. Procedures or systems are needed to keep worker-owners informed of progress and problems and ensure ongoing communication among workers-owners, managers and the board.
- Establishes and maintains good relationships with customers and suppliers.
- Implements the education and training plan to ensure that the business, technical, communication and cooperative skills of the worker-owners are maintained and improved.

After business operations have been underway for 9 to 12 months, hold an intense planning session or retreat to discuss how things are going and where to go next.

### **Key decision**

*What can be done to ensure that the co-op continues as a worker-owned business enterprise and meets the needs of its members?*

## **Organize “community cooperatives” and “community businesses” to create jobs**

In addition to using the concepts of group entrepreneurship to develop worker cooperatives, some communities have used a hybrid concept of community cooperatives or community businesses to generate jobs or provide needed services in their communities.

## Scotland: Community Cooperatives

“Community cooperatives” and “community businesses” developed in Great Britain in the mid-1970s as part of a strategy to help areas and regions suffering high unemployment that are “economically marginal.”<sup>17</sup> In 1977, the Scottish Highlands and Islands Development Board (HIDB) set up a program to build on local initiatives started in 1975–76 under a national job creation program.

The HIDB-sponsored program includes four basic components: (1) hiring field workers to explain and promote it to the people and communities in the Western Islands; (2) providing matching grants to local communities to raise money; (3) providing management grants to help subsidize the co-operatives in their early years; and (4) accessing regular HIDB loan and grant assistance.

Before a community group can expect HIDB funding, it has to pass three tests: (1) that the enterprise is likely to be viable; (2) that it has the support of the community; and (3) that it does not compete with an existing local business.

Model rules for hybrid versions of cooperative structures were developed by the HIDB, the Community Business Scotland (CBS) and the British National Cooperative Development Agency. The HIDB rules permit individual shareholding (allowing one vote per member) that pays a limited dividend but prohibit members from receiving any capital asset beyond their membership fee and shareholding when they leave.

CBS, the successor to the Scotland Community Business Forum, was organized in 1981 to promote the movement and to foster the creation of co-operative businesses in urban areas. The CBS community business model constitution is based on collective (common) ownership of all the co-operative’s assets.

The Scottish community cooperative movement served as an inspiration to many groups in other parts of Scotland and Great Britain, especially groups in old industrial areas and blighted inner cities. An urban version of the community co-operative, called a “community business” or “community enterprise,” developed in the late 1970s and early 1980s

John Pearce, a cofounder of one of the first community businesses in an urban area of Scotland, defines a community business as:

*a trading organization that is set up, owned and controlled by the local community and that aims to create ultimately self-supporting jobs for local people, and to be a focus for local development. Any profits made from its business activities go either to create more employment, or to provide local services or to assist other schemes of community benefit.*<sup>18</sup>

Community cooperatives usually have a geographical locality and allow employees, people in the community and any company or other business that has an interest in the community to become members. Some co-operatives allow a limited number of “outsider” members to attract people with the needed skills.

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<sup>17</sup>John Pearce, *Running Your Own Cooperative*, London, 1984.

<sup>18</sup>*Ibid.*

Most of the community cooperatives and businesses in Scotland are multi-functional. They both initiate business ideas and help local people develop their own ideas. In addition to their own business and development activities, community businesses may intervene in the local economy in various ways and may sponsor community benefit projects to create jobs or provide services for local people.

Their constitutions contain rather broad statements outlining their organizational objectives and also spell out the rules determining membership, management structure, ownership of capital and how profits are to be divided.

Pearce describes the community business as likely to be both a holding company and a local development agency. Its primary function is to “provide a community-owned structure in a particular locality which can initiate economic activity on behalf of the residents. Some community-grown specific enterprises might in time be floated off as self-standing businesses, likely as worker co-operatives.” Thus, the community business is “more than a trading organization, it is a means of stimulating new business growth in areas and among people where there is little or no tradition of entrepreneurial activity and usually a history of long-term unemployment and social deprivation.”<sup>19</sup>

The community business model created over 4,000 jobs in Scotland during the first ten years. The experience of the Scottish groups in setting up rural community cooperatives and urban community businesses is instructive of how the community enterprise development process works. Other Scottish development agencies provide support services similar to those of the HIDB to prospective urban community businesses. A modified approach has been used in both rural and urban areas to meet the special circumstances of city dwellers.

Community cooperatives and community business are typically established in areas of high unemployment by people in the community who are seeking solutions to that problem. They are born of the self-help desires of the people coupled with an awareness of the fact that neither the government nor private industry “will be quick to provide the jobs that are needed.” If they want something done, they had better get involved in making it happen.

## **Lessons from Scottish community enterprise development**

The Scottish experience in developing community enterprises provides four key lessons:<sup>20</sup>

- Community enterprises can create permanent self-financing jobs, harness latent abilities and resources and provide much needed local services, often in the worst possible circumstances when other approaches and forms of investment have failed.
- They succeed because local people take the responsibility for developing their own community.

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<sup>19</sup>Ibid.

<sup>20</sup>*Self-Help Communities: Developing Community Enterprise in the United Kingdom*. A Proposal from the Community Enterprise Movement. Presented by Community Business Scotland and The Association of Community Enterprises in the Highlands and Islands, 1988, p. 4.

- They work especially well where local and central governments recognize the hopes and needs of the communities and combine to support these enterprises on an all-party basis.
- They work where the support is targeted through a specialized local development agency (such as the HIDB), an NGO (such as the CBS), or a service because:
  - ⇒ An experienced development team helps the local people through the entire process because people in distressed communities usually have little confidence in their ability to undertake major initiatives.
  - ⇒ The process helps local people learn management and business skills.
  - ⇒ The approach combines individual, community and business development with complementary disciplines.
  - ⇒ Differing local conditions require flexible area-based, tailor-made approaches that, so far, only independent community enterprise development units can deliver. Other agencies are unable to respond adequately to the particular needs of community enterprise groups because of their narrow purposes.

## Getting Started

### Organize community cooperatives and community businesses

In many cases, a community group or a local activist or leader, such as a church leader or community development officer, begins the discussions that lead to the organization of a community co-operative or business. But in some communities the stimulus comes from outside. Promoting the idea that action is possible is very important in communities where a few employers have dominated the economy for years

When an area has high levels of unemployment and lacks an entrepreneurial tradition, instilling in people that they can and should help create jobs rather than depending on others is a major task. In the western isles of Scotland HIDB-appointed field officers talk with people and groups living in declining communities about forming community co-operatives. The following steps help to get community co-operatives or businesses underway.

#### Step 1: Form a local steering group to explore possible job-creating prospects

The first step is to form a local steering group to explore possible job-creating prospects. Once the steering group is organized, it carries out several tasks:

- *Learn what other groups in similar situations have done and how they did it.* To educate themselves about business and related matters, the steering group members obtain written materials about community co-operatives and businesses. They also visit co-operatives and businesses to see how they function.
- *Find ways to involve local people in the process.* The steering group informs local people of what they are doing by writing and distributing a leaflet explaining what they are trying to accomplish, holding a public meeting (or series of meetings), and talking with local business people and other groups to build interest and encourage

them to participate and contribute their ideas. It also contacts local politicians at all levels.

- *Learn who can help them.* The steering group investigates sources of assistance in their province or area, such as helping agencies, NGOs, and others. It also contacts people with professional skills (such as accountants, bank managers, lawyers, or business persons) who may be sympathetic to their ideas. This is another means of involving local people in their efforts.
- *Develop an action plan and put it in motion.* The steering group finds ways to turn its work into action. It appoints a secretary to record the minutes of meetings, decisions and assignments made.
- *Keep the community informed of progress and all developments.* The steering group finds a way, such as the media and other means, to keep local people informed of their progress and developments and involve them.

## **Step 2: Think of potential business ideas for a community cooperative or business**

The second step is to start thinking about possible ideas for a community cooperative or business. Pearce lists several things the groups in Scotland do.<sup>21</sup> They:

- *Determine local people's skills.* It is easier to build business ideas on the skills people already have.
- *Copy or adapt a successful cooperative or business in a similar community.* The group can learn from the experiences of others. Ideas that are successful elsewhere might work locally.
- *Determine the goods or services the community needs.* Areas of high unemployment often lack a number of commercial and other services. What community need or lack could be met by a community co-operative or business?
- *Look for unused local resources which might form the base for a community enterprise.* Perhaps an unused school, empty factory, unused land, abandoned building or even an eyesore could be the starting point for a new business and development.

Patience and perseverance are necessary. Planning and starting a community cooperative or business can be a slow process. Most community groups have much to learn about starting a business, and it takes time to plan and negotiate for the needed resources.

It is important to mix short-term activities that demonstrate progress toward the desired goal with other long term planning and negotiation. This provides tangible work for the group, rewards them for some of their efforts and gives them practical experience during the long process to create jobs or provide services.

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<sup>21</sup>Ibid.

### **Step 3: Compile a list of possible community cooperatives and businesses**

The third step is to come up with a list of possible business ideas, either by brainstorming or looking farther afield. The following questions can spark a brainstorming session:

- What desirable services are missing in the locality?
- Could any imported goods be manufactured locally?
- What specific skills do local people have?
- Is subcontract work available?
- Are any local businesses closing that will leave a gap that needs to be filled?
- Are any public services being discontinued or been discontinued?
- Is a franchise a possibility?
- What, if any, fringe activities could be linked to local large businesses?

Brainstorming might produce several possible ideas to explore. The potential community cooperative or business group must determine which ideas are feasible.

### **Step 4: Conduct a feasibility analysis**

Once some good ideas for starting a community co-operative or business are identified, the next step is to determine if they would be successful. The steering committee, with or without the assistance of outside resources, carries out the first stage of a feasibility study. The feasibility study assesses the soundness of the co-operative or business ideas.

#### **Resources Available**

The feasibility study assesses the suitability of the *resources* available to the co-operative or business group:

- *People:* Who are the committed members of the group? What business, production, sales, or organization and management skills do they have? Why do they want to be involved? Who else might be involved?
- *Finance:* Would the group members be able to contribute funds? Are there any special sources for grants or financial assistance in the local area? Could the group obtain a loan? Are any other sources of help (in kind as well as money) available?
- *Premises and equipment:* Are premises readily available or can they be found at reasonable cost? Are the necessary equipment and machinery obtainable? What else may be available?

#### **Business Idea**

The feasibility study carefully assesses the business idea. Three questions must be answered:

- *Will it sell?* Is there a market for the proposed product or service?
- *Will it pay?* Would the income cover all the costs?
- *Can it be done?* Is the idea technically possible? Could both the machinery and people to make it work be found?

## Resources needed

After assessing the resources available and the business idea, the feasibility study assesses the resources needed to operate the business.

- *People.* Are any particular skills missing in the group? How can people with the required skills be found?
- *Finance.* How much financial support and what kind will the planned venture need? Include pre-start-up development costs, pre-start-up capital costs, and estimated operating costs for the first few years of operation. Also project cash flows (expenses and income) during the first years of operation.
- *Premises and equipment.* How much space will be required? Where located? Can the equipment and machinery necessary to produce the product or service be obtained when needed and at an affordable price?

## Step 5: Prepare a business plan and obtain financing

If a feasibility study indicates that an idea could succeed, a business plan is prepared. Preparing the business plan is an important activity for a venture group because it sets down what they intend to do and how they intend to do it. A jointly prepared and agreed to plan is a sound foundation on which to build the venture as well as a way to measure progress. It is important that the group members understand the plan.

The business plan is the basic document used to raise money to finance the project. The members' equity stake (spelled out in the business plan) demonstrates their commitment to the proposed business. It is used to match the loans, grants, and other financial support from banks, foundations, government agencies, and others.

Appendix I at the end of the chapter provides more detail about the contents of a business plan.

## Step 6: Legally organize the business

Once financing is obtained to start the business, the community co-operative adopts a proper legal structure for the proposed business by becoming incorporated as a cooperative society or as a limited company.

The legal structure:

- Gives limited liability
- Defines the objectives and purposes of the enterprise
- Determines the membership as well as the directors or committee of management
- Sets out the rules of operation
- States what will happen to the profits
- States what will happen to any assets if the enterprise is closed

In addition to the normal co-operative rules of operation, the group usually establishes some "house rules" through decisions made at a general meeting of the membership or by the board of directors. These regulations cover issues the cooperative decides to implement as part of its organization and operations, such as disciplinary and grievance procedures, recruitment policy, and wage ratios.

Most of the community cooperatives and businesses in Scotland are based on a geographical locality and are multi-functional. They engage in a wide range of both trading and other activities to achieve their desired aims, usually to create jobs or provide services for local people. Their constitutions contain rather broad statements outlining their organizational objectives. The constitutions also spell out the rules determining membership, management structure, ownership of capital and how profits are to be divided.

### **Step 7: Obtain premises and equipment for the business**

The next step is to obtain suitable premises and the machinery and equipment to produce the product or service. Because of the considerable restructuring and privatizing going on in most CEE countries, it is usually possible to obtain space in unused factories or other buildings. In many cases, local government authorities can help find suitable premises and make them available at reasonable cost.

All avenues should be explored to find the type of premises needed. In communities where business incubators have been established (see Chapter 2), space providing range of services can be made available for community enterprises at a modest cost.

### **Step 8: Train the workers and startup operations**

The last step in starting a community business is to provide or obtain the necessary training for the workers and managers in the new business. In many instances, NGOs, government training program, and specialized courses can provide the necessary training.

When starting a community cooperative, it is critical that the workers (the human resource of the enterprise) receive continuing education and training to enhance their skills and prepare them to work in co-operative business enterprises. Otherwise, the lack of a skilled and competent workforce will hurt it vis-à-vis its competitors, and the community cooperative will not increase the employability, skills, and income of the residents.

## **North America: Community Development Corporations (CDCs)**

A number of provincial, state and local governments in North America and local governments in Europe have created departments or quasi-public units to facilitate local economic development efforts by providing leadership, planning, technical assistance, and financing.

In America, the Massachusetts State Office of Community Economic Development provides assistance to fifty community development corporations and other eligible community-based organizations. That assistance includes funding for staff and related administrative costs, technical assistance in program planning, organizational development and fund-raising, and clearinghouse services. Other state-sponsored quasi-governmental corporations provide financing and venture capital to CDC-initiated housing rehabilitation and job-creating commercial and industrial projects.

In Canada, CDCs function as institutions that develop businesses. These organizations build organizational skills, resources, and energy to start businesses and other projects and keep them going. Bill Hatton, Chief Executive of the Kitsaki Development Corporation, one of the

most successful Indian development corporations in Canada, said, “If business development is a wrench, economic development is the machine which makes the wrench.”<sup>22</sup>

The Westcoast Development Group in Vancouver, British Columbia, has published a number of manuals and workbooks that CDCs use to provide enterprise and venture development training to Indians. The group also conducts workshops on community economic development. Their training approach is based on a Development Wheel framework for use by any community economic development organization attempting to generate new enterprise creation in a wide variety of minority and depressed communities.

The development wheel consists of six components: (1) organizational prerequisites for community economic development; (2) pre-planning for economic development; (3) organizational development; (4) venture development; (5) community participation, strategic networking and technical assistance; and (6) building organizational capacity. The first two components (preliminary data collection and preparing for community economic development) (CED) are carried out during the first phase. The four remaining components are carried out simultaneously during the remaining three phases: (1) building the CED base; (2) focusing on opportunities; and (3) detailed planning and mobilizing resources.<sup>23</sup>

## Common and Cooperative Facility Centers

### ILO: Common Facility Center Model

The ILO’s Micro-enterprise and Informal Sector Section of the Enterprise and Cooperative Development Department is promoting the Common Facility Center (CFC), an innovative approach to increase the labor productivity and product quality of entrepreneurs and artisans in a particular industrial sector, such as handicraft and small manufacturing businesses, in developing countries by providing support services and production facilities.<sup>24</sup>

The CFC concept first originated in Bangladesh and was developed further by the ILO. The CFC concept is similar to the flexible manufacturing network concept, such as the ACEnet approach and the service center and interfirm collaborative network concepts discussed in Chapter 10, adapted to developing countries.

The CFC concept was field tested in Sri Lanka. An entrepreneur leases a building and machinery supplied by the National Design Centre (NDC), operates the facilities for his/her own production and subleases them on a part-time basis to other local small-scale entrepreneurs and self-employed artisans in the same industrial subsector. NDC technical staff and international advisors provide advice and training in various aspects of their clients’ businesses, including product design, accounting systems, technological development and marketing. A leather products industry CFC has operated in Kandy, Sri Lanka, for about six years. It employs about ten workers and is considered quite successful. Two additional CFCs are being developed in Sri

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<sup>22</sup>Quotation from Decter and Kowall, *A Case Study of the Kisaki Development Corporation, La Ronge Indian Band, La Ronge, Saskatchewan*, (Ottawa: Economic Council of Canada, 1989) and quoted in *Venture Capital Basics: A Workbook*, Vancouver, Westcoast Development Group, 1991, p. 2.

<sup>23</sup>*Ibid.*, Appendix 1.

<sup>24</sup>Richard Szal, *ILO work in the area of micro and small-scale enterprise development*, Geneva, February 1992.

Lanka, and a new handloom weaving project is in the design phase. (The ILO subsequently used the CFC concept for some projects in Tanzania and Ghana.)

An ILO document outlines a proposed three-part framework for microenterprise development in developing countries.<sup>25</sup> The three parts are: (1) a policy cell at the central government level that undertakes research to develop policy initiatives to promote microenterprise activities; (2) a CFC and a Micro-enterprise Development and Coordination Committee (MEDCC) that act as a management committee for the CFC and link policy development to CFC operations; and (3) micro and informal sector entrepreneurs.

In this model, the CFC determines whether the existing services are sufficient to satisfy the needs of small producers and whether they can be strengthened and improved. If not, the CFC develops and makes the needed services available. The CFC also has specialized equipment for training or for rental to producers on a user-charge basis for the sector in which it operates. Other services that can be provided include training, technology, credit, marketing, raw materials procurement, etc.

The ILO's objective is to make the CFCs "as close to being self-financing as possible" by charging for services (feasibility studies, raw materials and equipment procurement, training, assistance in obtaining credit, marketing, quality control, follow-up and supervisory extension services and supply of information) as well as "selective commercial production." The ILO model also envisions each CFC having a mobile team to provide a link between the CFC and microentrepreneurs. The mobile teams are to identify and make contact with entrepreneurs, assess their problems and needs and refer them to the organizations (including the CFC) that can best help them.

## **“Cooperative” Version of the Common Facility Center Model**

Some rural area employment promotion and enterprise development features of the Ohio ACEnet Flexible Manufacturing Network (discussed in Chapter 10) and the ILO-CFC models have been incorporated into a strategy to strengthen micro and small enterprises in developing countries, industrialized countries and Central and Eastern Europe. The CFC concepts have been recast into *Common Facility Cooperatives*.

The Common Facility Cooperatives are second-degree producer cooperatives organized in sectors and settings to enhance the operation and economic viability of artisan, handicraft and small manufacturing enterprises and provide needed assistance through training and advisory services, including linking producers with sources of inputs and information and with potential buyers and markets.<sup>26</sup>

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<sup>25</sup>*Ibid.*, pp. 7–11.

<sup>26</sup>For a fuller description of the common facilities co-operative see Gary B. Hansen, *Co-operative Entrepreneurship: An Innovative Approach to Generate Employment and Income in Rural and Informal Sectors*, Utah Centre for Productivity and Quality of Working Life, Utah State University, January 1993.

## Franchising as a strategy for small business promotion

Franchising is an innovative entrepreneurial approach for business growth and expansion. It combines many of the advantages of a large business— economies of scale in purchasing, advertising and product development, experience and expertise—with some of the advantages of small-scale entrepreneurship—high-level of commitment and motivation, local contacts and knowledge.<sup>27</sup>

The increased utilization of franchised business concepts reflects the advantages the system offers to both the franchiser and the franchisee. In franchising, the owner of a proven business system, the franchiser, grants an “entrepreneur” the right by contract to establish a similar business. In exchange for franchise fees and the obligation to adhere to strict quality standards, the franchisee acquires the right to use the franchiser’s trademark and receives marketing support, detailed manuals on how to operate the business, start-up assistance, staff training, equipment and raw material procurement and, often, technical assistance to resolve problems that may be encountered.<sup>28</sup>

Franchised businesses account for a substantial proportion of the new retail businesses in the United States and, more recently, in Europe. Governments in some countries and regions have begun to include franchising in their strategies to promote entrepreneurship and small businesses, expand employment, and raise the overall level of business practice. Franchising shows considerable promise as a means to introduce new businesses into central and eastern Europe

## Community integrated manufacturing companies (CIMCOM)

A community integrated manufacturing company is a non-profit, non-governmental organization (NGO) which is organized by a small group of business professionals, venture capitalists, and community leaders for the specific purpose of establishing and supporting small manufacturing enterprises in rural areas experiencing economic stagnation or declining agricultural activity and rising levels of unemployment. It is a jointly financed partnership between local governmental units and the private sector. The CIMCOM works with local government leaders to establish, on a turnkey basis, several new, small-scale production-oriented businesses in each target community. The objective of these new enterprises is to create good jobs and income for the residents in the community.

The CIMCOM hires a small professional staff who operate collectively as paid consultants to the local government during the planning stages, conducting studies, securing financing, and creating business plans, which when accepted, lead to subsequent stages of

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<sup>27</sup>*Ibid.*

<sup>28</sup>“Franchising as a Strategy for SME Promotion,” *New Initiatives in Entrepreneurship Development*, Proceedings of the ICPE/ILO/INTAN Workshop (Kuala Lumpur, 19–22 August 1991), Geneva: ILO Management Development Branch, 1992, pp. 11– 13.

development eventually resulting in a business start-up. The final stage involves the establishment and operation of a new community-based manufacturing enterprise.

The new businesses spawned by a CIMCOM (called “production cells”) are staffed primarily by local residents (with professional managers sometimes drawn from the outside) and are housed either in home-based or community-owned facilities. Each new production unit is supported by an initial set of production contracts obtained by CIMCOM through its regional and national development work and contacts, and a small administrative staff. This staff, also provided by the CIMCOM (which is referred to as the “hub”), is shared by all the businesses involved in the local CIMCOM enterprise development project. It handles the functions of accounting, contract administration, purchasing, marketing, scheduling, quality control, etc. This arrangement permits the new businesses to focus exclusively on high quality, efficient production, while supported by competent administrative staff on a shared-cost basis.

Once the development stage is completed and a new business enterprise becomes fully operational, CIMCOM receives ongoing revenue to pay for its services through licensing and service fees. These fees are collected as a percentage of the revenue produced by each new business enterprise the CIMCOM helps create.

From the outset, CIMCOM is the primary owner of the new business enterprises. However, over time, as the enterprise achieves operational and financial stability, it is spun off as an independent business through the sale of the stock by CIMCOM, either through a management buyout, purchase by outside investors, purchase by the employees through an employee stock ownership plan (ESOP) or by conversion to a worker cooperative. However, CIMCOM may continue to hold a modest equity share in the enterprise and provide management assistance or other services if needed.

**Appendix I  
Worker Cooperative Venture Selection Criteria Form**

Venture Opportunities	Selection Criteria											
<p>Key  o = venture does not satisfy the criterion  s = venture strongly satisfies the criterion</p>												

## Appendix II

### Essential Elements of Business Planning

When a group of prospective group entrepreneurs approach the business center (or other technical assistance agency in the community) with a business idea, the center staff takes them through the entire venture development screening process. If a potential business idea is drawn from the business center's product bank, the group participates in updating the feasibility study and the preparation of the business plan.

The business plan is prepared by the designated manager/promoter and the prospective group entrepreneurs with the help of the center staff. It describes their business goals, how they plan to achieve them and establishes a specific time period for doing so. The business plan alerts the group to the things that are crucial for a successful worker cooperative business venture, forces them to think through what it is they want to accomplish and to make a number of important decisions before investing significant time and money.

In addition to the purposes identified above, the completed business plan serves: (1) as the funding document which the business loan fund, banks, and other lenders require to grant loans and other financing; and (2) as a blueprint for starting, expanding, and/or operating a worker cooperative business.

#### **Collect data and define the business.**

The proposed new worker cooperative business should be compared with the competition to evaluate its potential. This includes studying the industry the firm would be in, knowing exactly what product or service it would produce, what would make it competitive, and who the customers would be.

#### **Analyze the data.**

The preliminary analysis and assessment of the proposed worker cooperative business pinpoints any weaknesses in the proposal and indicates whether the proposed enterprise is likely to succeed. The analytical process includes a break-even analysis and a market analysis to determine the level of business needed to make a profit and whether the market would support the proposed product or service.

#### **Decide on a strategy.**

Once rough projections are made of what the proposed business could achieve, it is time to decide how to achieve them. The topics in this part of the plan could be grouped into four sections.

1. *a general marketing plan*, including issues such as location (if location is critical to marketing the product), sales and distribution, advertising and promotion, pricing, etc.
2. *a production plan*, including issues such as location and facilities, production methods and equipment, materials and sources of supply.
3. *an organization plan*, including the essential organization for a modern worker cooperative:

- ⇒ governance, participation, ownership and the individual capital accounts system;
  - ⇒ identification of the key personnel involved in the management and governance of the enterprise;
  - ⇒ the educational and training needs of the workforce;
  - ⇒ information about compensation and staffing--including the number of worker-owners and the functions to be performed; and
  - ⇒ information about the necessary supportive services and linkages.
4. *a schedule* explaining the major steps to be taken to start the WC business, when to take them, and how they interconnect.

### **Forecast the results.**

Once the business plan decision-making process is completed, it is time to assess the implications of all the previous decisions in dollars. Normally, businesses measure their success on financial statements from the accounting system. For purposes of the business plan, results are projected in the form of pro forma financial statements because:

- they provide the type of information to estimate how well the business would do;
- the loan fund and financial institutions approached for money expect them; and
- they make it easy to compare plans to actual results once the business is started.

The financial section of the business plan for a new worker cooperative includes a set of projected financial statements for three to five years which estimate start-up costs, develop sales forecasts, provide profit and loss statements, and cash flow statements.

Financial statements prepared by businesses normally include:

1. *a balance sheet* summarizing the overall financial status of the business —what it owns or is owed (assets) and what it owes to others (liabilities), including what it owes to the owners (equity) at one point in time;
2. *an income statement* showing the total earned (profit) or lost (loss) in its operations and sales after subtracting the costs of operation over a period of time (e.g., a month or a year); and
3. *a cash flow statement* showing all sources of cash (including cash sales and collections on credit sales, loan proceeds received, capital invested by owners, and proceeds from the sale of assets) and how the cash is spent (paying for shipments of inventory or supplies, paying wages and bills, buying equipment, making loan payments, and dividends or withdrawals for owners).

### **Compile the Plan.**

The last step in the business planning process is to write and compile the formal WC business plan which is used as a financing tool and a blueprint to start the new business. The business plan should be written, organized, printed, and bound to present the strongest case for the enterprise and its WC organizers, both in terms of what the plan contains and the way it is presented. Because it is written partly for outsiders, such as bankers, to convince them to loan money to the enterprise, it provides background and other information to demonstrate the soundness of the venture.

Normally, a formal business plan contains five parts:

1. title page
2. table of contents,
3. executive summary,
4. main body divided into sections describing the various components of the business idea in considerable detail, and
5. supporting documentation, including the pro forma financial statements covering the first three to five years of projected operations.



## Chapter 7

# Use early warning, feasibility studies, and ownership changes to save jobs

### “Cooperative-type” joint stock enterprises and job preservation<sup>1</sup>

In addition to worker cooperative entrepreneurship and the other types of cooperatives discussed in Chapter 6, there is a new type of business enterprise--cooperative-type joint stock enterprise--that has considerable employment and income implications for local communities facing the threat of economic restructuring and enterprise downsizing..

Cooperative-type joint stock enterprises are becoming increasingly popular as a means to preserve jobs, create employment and foster economic democracy in the industrialized market economy countries. They have been incorporated in privatization efforts in central and eastern Europe and in some developing countries. Successful efforts by advocates of these new forms of business enterprises have resulted in the adoption of legislation that modifies traditional corporate forms of enterprise and allows for joint-stock variations of worker-owned cooperatives.

Although cooperative-type joint stock enterprises emerged in Europe and North America during the last 20 years, they have spread world-wide in response to a number of attitudes and concerns, including dissatisfaction with potential and real adverse employment impacts arising from the corporate joint-stock form of business enterprise in market economies, a desire on the part of threatened workers and their trade unions and communities to do something about the adverse impacts, and a desire to foster economic development and renewal at the local level.

Although there are several types of these enterprises, most of them are hybrids and are built on the foundation of joint-stock companies with the addition of some form of employee ownership, worker participation and, in some cases, democratic control. The most common types are labor-limited companies (LLCs), employee stock ownership plans (ESOPs) and “cooperative-ESOP” joint-stock companies.

Worker ownership in the form of employee stock ownership is gaining a small but growing foothold in world-wide efforts to privatize state-run businesses, preserve jobs, and make enterprises more competitive. Countries that have incorporated employee ownership as part of their privatization efforts include Argentina, Jamaica, Mexico, Pakistan, Trinidad, Turkey and

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<sup>1</sup>The material in this section has been taken from the ILO publication: *The role of cooperatives in the promotion of employment and income in the rural and informal sectors, Report 3 Meeting of Experts on Cooperatives, Geneva: 29 March–2 April 1993*, pp. 3–4.

the United Kingdom in the capitalist world and virtually all the formerly socialist nations of central and Eastern Europe.<sup>2</sup>

## **Spain: Labor limited companies and cooperative stock companies**

During the past two decades, Spain has developed the cooperative joint-stock form of enterprise, an innovative entrepreneurial approach to employment preservation and enterprise development based on cooperative-type concepts of worker-ownership. In addition to preserving existing jobs and businesses, this business ownership approach has been used to create thousands of new business enterprises and jobs. According to existing registration data, during the period 1983–1989, 16,757 Labor Limited Companies and Associated Labor Cooperatives were organized under Spanish law, creating 128,156 new jobs for redundant and unemployed workers in Spain.<sup>3</sup>

The first labor limited companies in Spain were organized in the early 1970s when an economic crisis forced many small firms to close. Some firms went bankrupt due to obsolescent machinery, market recession, poor management, and lack of investment. The owners turned their businesses over to the workers or other creditors. The workers agreed to take control of the businesses to save as many jobs as possible. Other workers who had been thrown out of work by plant closures attempted to use their collective skills to start new enterprises in the same or other lines of business.

The substantial growth in the numbers of these conversions and the “phoenix-type” enterprise development in the next decade led the government to publish a law on 25 April 1986 to regulate this singular model of ownership and enterprise. The law spelled out the characteristics necessary for a firm to be considered a labor limited or worker limited form of cooperative stock company:<sup>4</sup>

- At least 50 percent of the stock capital must be worker owned.
- No shareholder may hold more than 25 percent of the stock capital.
- The share certificates representing the capital must be registered certificates.
- The certificates representing the capital must indicate in their text the limitations to their transferability as set forth in the company’s by-laws.
- The workers must be employed full time for an indefinite period.
- In exceptional circumstances when state or local governments hold a majority or all of the stock, public bodies or corporate bodies may hold up to 49 percent of a firm’s capital.
- Shares in portfolio are permitted provided they are shares reserved for workers and that the capital they represent does not exceed one-fourth of the capital of this type of share.
- When workers leave an enterprise, they are obliged to offer their shares to whoever has preferential rights to purchase.

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<sup>2</sup>National Center for Employee Ownership (USA): “More countries including employee ownership in privatization,” *Employee Ownership Report*, Vol. 11, p. 7.

<sup>3</sup>Ramon Salabert Parramon, “Active Socio-Economic Development Policies in Spain,” *International Review of Co-operation*, Vol. 83, 1990, p. 3.

<sup>4</sup>Luis Irazabal, “The ‘Mondragon’ Group,” *Review of International Co-operation*, Vol. 83, 1990, pp. 45–59.

- In addition to the legal and statutory reserves, the companies are required to set up a special reserve fund of a non-shareable nature equivalent to 10 percent of the profits each year.

## USA: Employee stock ownership plans (ESOPs)

In the United States, an employee stock ownership plan (ESOP) is an employee benefit plan that was authorized by Congress in 1974. Because ESOPs in the U.S. receive substantial tax preferences, their growth has been continuous and impressive. Since 1974, about 11,000 ESOPs have been created, covering about 12 million workers or about 10 percent of the U.S. workforce.

An ESOP operates through a legal device called an ESOP Trust that is set up by the organizers (usually the company and, in some cases, the employees and their union). The ESOP uses the company's credit and borrowing power to borrow funds on behalf of its employees. It uses these funds to purchase new shares of company stock or to purchase old shares from existing owners (private or public). The company commits itself to pay back the loan. As the loan is paid off, shares of company stock are allocated to each employee's account in the ESOP Trust on some specified basis—usually a percentage of the employee's payroll income. When the loan is paid off, the employees own shares of stock in their company, and the company enjoys the tax savings, the increased productivity, and commitment that goes with employee shareholding.

In the U.S., ESOPs have been used for many different purposes, including several related to job preservation, economic revitalization, and competitiveness. Currently, ESOPs are being organized:

- *so workers can buy their company from departing or, in many cases, retiring owner(s).* If the company is sold to outsiders, many purchasers want only the “good will” and assets of the business and eventually reduce operations, lay off local workers, close the doors and leave the employees without jobs or income. About 45 percent of the ESOPs are created to provide business continuity. A March 1990 survey by a national accounting firm found that 76 percent of the privately held business owners had no succession plans in place.<sup>5</sup>
- *so workers can buy their company from a government agency that is privatizing the enterprise.* In a few communities and at higher governmental levels, there has been a desire to privatize some public enterprises; e.g., Conrail, waste management, and other services. If the enterprise is too large to convert to a workers' cooperative, the ESOP is used as a legal means to facilitate the employees' purchase of the enterprise. About 1 to 2 percent of the ESOPs fall into this category.
- *so workers and their communities can “save” or prevent the closure of a business for economic or other reasons;* e.g., a change in corporate policy or the failure to reach a corporate rate of return on investment objectives. About 3 to 4 percent of the ESOPs fall into this category.
- *as a means to raise capital at a lower after-tax cost to modernize or expand the business.* To use the ESOP for this purpose, the company issues new shares of stock

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<sup>5</sup>“Employee Ownership is Economic Development,” *Employee Ownership News*, Winter/Spring 1993.

that the ESOP buys with borrowed money. The company uses the money to buy equipment or other goods to improve its operation.

- *by unions as a quid pro quo for wage concessions.* When unionized companies face tough financial times resulting from stiff competition, changing markets or other problems, they may seek wage concessions from their workers to prevent bankruptcy or to strengthen the company's financial position. Unions facing such demands have been willing to take a pay cut *only* in exchange for an equity stake in the enterprise that can be structured through an ESOP. About 3 to 4 percent of the ESOPs are used for this purpose. In recent year's worker have purchased United Airlines and several other airlines in the troubled U.S. airline industry.
- *by employers to create an additional employee benefit.* The objective is to reward faithful employees and to motivate them to work harder and be more committed. About 40 percent of the ESOPs are set up primarily as employee benefit plans.

Studies suggest that giving employees an ownership stake in their company has positive impacts on the company's productivity and performance when there are active programs for sharing information and soliciting employees' input into decisions at all levels of the company. A study by the National Center for Employee Ownership found that in America ESOP firms grew 3 to 4 percent per year faster than they would have without the ESOP and that this growth created almost 50 percent more jobs in the ESOP companies. More importantly, the data revealed that most of the growth occurred in the most participative one-third of the companies—those that allow relatively high degrees of employee input into job-level decision making. These firms performed about 11 to 17 percent per year better.<sup>6</sup>

A study by Rutgers University researchers found that employee stock ownership also helps company performance by increasing the market value of its stock. In 1992, stocks of public companies with 10 percent or more employee ownership holdings increased in value 23 percent compared with a 4.2 percent increase for the Dow Jones industrials.<sup>7</sup>

Today, employees and their communities are using ESOPs more extensively and successfully to prevent the arbitrary closure of plants by employers who have little concern for the future of their workers and the economic health of their communities. In 1988, the U.S. Congress passed federal worker adjustment legislation that encourages the use of employee ownership through ESOPs and other cooperative-type enterprises for these purposes.<sup>8</sup> The legislation also authorizes local government agencies to use federal worker adjustment funds allocated to states to finance feasibility studies to determine whether worker buyouts are economically sound. As a result, ESOPs are being used more frequently to structure worker buyouts to save jobs and prevent closures.<sup>9</sup>

After initially opposing the use of ESOPs to facilitate worker buyouts, several trade unions in the United States now promote the creation of democratic ESOPs among their

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<sup>6</sup> Corey Rosen and Kathleen Young, eds., *Understanding Employee Ownership*, Ithaca: ILR Press, 1991, p. 30.

<sup>7</sup>“Executive Stock Ownership doesn't help firms' results, a study shows,” *The Wall Street Journal*, March 23, 1993, p. A1.

<sup>8</sup>Economic Dislocation and Worker Adjustment Act.

<sup>9</sup>In the book by Frank T. Adams and Gary B. Hansen, *Putting Democracy to Work: A Practical Guide for Starting and Managing Worker-Owned Businesses*, (San Francisco and Eugene: Berrett-Koehler and Hulogosi, Revised edition, 1992) an outline of the procedures for conducting prefeasibility studies and feasibility studies to facilitate the process of employee buyouts is provided.

members as part of economic renewal strategies to preserve jobs and prevent plant closures. These unions now provide organizational and financial support, consulting services, and suitable information and training materials to educate workers about what ESOPs are and how they can serve workers' interests.<sup>10</sup> Some unions are also training workers to identify the early warning signs of plant closures so preventive measures such as a worker buyout can be initiated well in advance of a planned shutdown.

## **USA: Using “early warning” indicators and action teams to prevent mass layoffs or plant closings**

It is extremely difficult to save jobs and enterprises or complete the transfer of ownership to another group of investors or the employees once a decision to close is made or an enterprise is allowed to deteriorate or run into the ground. But jobs and enterprises can be saved when intervention occurs well in advance of the planned closing, divestiture, or downsizing.

But how can those seeking to save an enterprise or their jobs know when to intervene before it is too late? Based on experience in the U.S. during the past 15 years, the Midwest Center for Labor Research has identified fifteen early warning signs to help state and local Dislocated Worker Units, unions, and workers identify employers and situations that may justify further study or intervention to cut costs, improve productivity, preserve jobs, transfer ownership, or provide adjustment assistance to displaced workers.<sup>11</sup> In addition to this list, the Canadian Industrial Adjustment Service (IAS) uses a “repeated use” of worksharing UI as one indicator that a firm may be in trouble.

The innovative approaches developed to preserve jobs and prevent plant closures are based on the principle that governments, employees, communities and local businesses have a stake in the stability and health of local businesses

### **Key element of early warning is monitoring existing businesses**

The key element of community involvement is monitoring existing businesses for the purpose of preventing shutdown of potentially viable businesses. This involves creating an early warning network comprised of community leaders, labor, economic development agencies and business organizations. Early warning networks provide a means by which these groups can gather and organize information about a community's existing businesses with sufficient lead time to:

- identify those companies at risk of moving or closing
- provide assistance to companies in need of resources or skills
- identify opportunities for increasing corporations' performance and stability

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<sup>10</sup> The publications by Gary B. Hansen and Frank T. Adams, *ESOPs, Unions, & the Rank and File*, (Industrial Cooperative Association, 1989) and *Putting Democracy to Work* are illustrative of this material.

<sup>11</sup> Greg LeRoy, Dan Swinney and Elaine Charpentier, *Early Warning Manual Against Plant Closings*. Chicago: Midwest Center for Labor Research, 2nd ed., 1988.

The network gathers information on companies through extensive research and from its members' first-hand knowledge. Using with information, the network can develop effective strategies for assistance and intervention to prevent the loss of jobs.

## **Why so many businesses close or downsize**

There are many reasons why firms downsize or close their operations. Some do it to maximize profits and reduce labor costs. Sometimes companies shut down because of poor planning or lack of access to necessary resources or markets. No matter what the reasons for the shutdown, without an early warning network, stakeholders usually hear about a problem after it is too late to do anything except make efforts to meet the financial and social needs of those who will shortly lose their jobs. With an early warning network in place there is a chance to retain and rebuild the local economy.

A survey of businesses that closed in 1985 carried out by the U.S. General Accounting Office (GAO) found that only 7% of the closures were caused by bankruptcy; 93% resulted from other causes:

- divestitures of business units that no longer fit corporate objectives;
- profits that fell below the level parent companies required (even though the units were earning a profit);
- the owners of closely held businesses retired; and
- units purchased by firms wanting only the units' trade name or market.

The Midwest Center for Labor Research conducted a survey of small privately held manufacturing firms in the Chicago area. They found that nearly 50 percent of the owners were over 59 years of age and only one-sixth of them had identified a logical successor. The researchers concluded that this places the future of many firms in jeopardy.

A well-informed pool of leaders coordinating their efforts through an early warning network can encourage companies to adopt a strategy that keeps a business and its jobs in the community.

Local leaders working through the network can:

- identify a qualified community friendly buyer who is committed to keeping the business in the area
- help arrange an employee buyout
- provide access to new and improved management personnel
- provide access to capital
- offer business planning assistance
- offer technical assistance to improve productivity
- offer turnaround assistance
- train and develop the local workforce
- facilitate an effective working relationship with community and other agencies

## **Early warning focuses on published and unpublished information**

Early warning focuses on two types of information: published and unpublished. Published information on companies can be found in annual reports, data bases, trade journals, the business press, and public records. Unpublished information comes from people with first-hand knowledge of the company, including employees, customers, residents of the community, service providers, local economic development officials, and local governments. Often these people are seeing signs of trouble without knowing how to recognize or interpret them. Educating the workers, community leaders and others to read the warning signs can provide critical information that allows for effective intervention.

With both published and unpublished information, you can identify potential problems at a company, develop an analysis of the particular problems and opportunity, verify the information, and develop a course of action to encourage and assist a company to keep its doors open. (You can also identify companies or others that are really beyond repair and assistance and candidly inform the stakeholders to prevent misinformed public investment and misplaced expectations.) This kind of systematic approach to local companies can result in as much as two years' notice of a potential problem that if unrecognized, could result in a crisis at the company and a potential closure.

## **Forming an “action team”**

If the information collected and analyzed by the coordinator and the network participants indicates that assistance or intervention may be required, then the network coordinator should put together an action team. The team should include members with experience in handling the specific issue facing the company.

The action team should work together to determine the best way to approach the company, introduce itself, and offer assistance. If the company is open to the team, they can all work together to save the company and its jobs. If the company is hostile to the network, the team must determine the appropriate next step for waging a campaign to prevent a closing.

## 15 Early Warning Signs

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1. Ownership problems
  - ♦ No successor for an aging or sick owner
  - ♦ Change of ownership/new investment strategy
  - ♦ Ownership by conglomerate
2. Disinvestment
  - ♦ Lack of equipment and building maintenance
  - ♦ Profits used to improve or buy other plants
  - ♦ Excess dividends or other payouts
3. Declining Sales/Declining Employment
  - ♦ Three-year trend declines
  - ♦ Loss of major customers
  - ♦ Trend counter to (or worse than) the rest of industry
4. Mismanagement
  - ♦ Poor quality control, Poor product design
  - ♦ Nepotism, cronyism, irregularities in promotions
  - ♦ Antagonistic labor relations
5. Duplicate Capacity
  - ♦ Twin plant with ability to make same or related product
  - ♦ Outsourcing of least-skilled work
  - ♦ Whipsawing against twin plant
6. Management Instability
  - ♦ Poor treatment of plant by corporate parent, and poor managers
  - ♦ High turnover in plant manager, engineer, and labor relations positions
  - ♦ Mysterious new “consultants” directing personnel
7. Business “Climate” complaints
  - ♦ Management complaints about taxes, energy prices, unions, poor workers
  - Indications that a company is looking for enterprise zone, tax breaks
8. Changes in Land Use
  - ♦ Rising land prices due to commercial or residential redevelopment
  - ♦ Location in a trendy riverfront or oceanside area
9. Inadequate Research and Development
  - ♦ Neighboring plants being sold and converted to non-manufacturing uses
  - ♦ Lack of new products
  - ♦ Losing product design and quality to other companies
  - ♦ Lack of research to cut energy costs, overhead, and inventory
10. Changes in Management behavior
  - ♦ Increased labour relation problems
  - ♦ Lack of company “roots” in the community
  - ♦ Actions by managers that indicate they won’t be staying long
11. Removal of equipment
  - ♦ Equipment moved to a twin plant or sold to a competitor
  - ♦ Loss of key equipment or minor pieces
12. Cash crunch/Irrational Cutbacks
  - ♦ Supplies arriving C.O.D.
  - ♦ Shortages in supplies causing production snags
  - ♦ Paychecks bouncing
13. Unusual Bargaining Positions
  - ♦ Management asking for shorter or longer contracts than usual
  - ♦ Company offering to initiate severance pay clause
  - ♦ Management proposing “backloaded” money language
14. Unidentified Visitors/Cosmetic Improvements
  - ♦ Equipment or building being surveyed or appraised
  - ♦ Cosmetic improvements such as office spruce-up, landscaping
  - ♦ Consultants or other visitors the company will not identify
15. Real Estate and Property Tax Delinquencies

Source: Midwest Center for Labor Research

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## Taking action

The whole purpose of early warning is to secure timely and accurate information on companies so that the network can take action which helps improve a company's performance and reduces the risk of job loss or even business closure.

What are some of the actions available to the network? Several actions are available that are designed with the company's stakeholders (employees, community members, government officials) in mind. Determining the appropriate action for any given enterprise depends on the warning signs, the results of the business analysis and the capacity of the network participants. There are four categories of possible actions that the network can take:

- ownership transition assistance
- financial assistance
- management assistance
- intervention

## Ownership transition assistance

When arranging for a transition in ownership, companies need to be matched with an owner who will preserve the company at the local site and meet the qualifications of the network members. As a minimum, the owner must be competent to protect the interests of local investors and lenders.

If there are indications of ownership problems, the following steps must be taken by the network:

- determine the viability of the business--by conducting a feasibility study that looks at the company's markets, finances, management structure and capacity, machinery and assets, sales and marketing capacity--and make certain that the company is still viable. (If a company has been identified as at-risk after they are beyond salvage, the network should turn the information over to the appropriate rapid response worker adjustment component to address employee dislocation benefits, retraining, and placement.)
- identify the right buyer--a group of employees, a group of individuals, or a single entrepreneur
- provide assistance in negotiating the sale, using suitable intermediaries

When considering possible buyers for a company, there are several options:

- employee ownership
- existing local ownership
- non-local ownership committed to keeping the business in the area

There is no absolute formula for employee ownership. It can take the form of workers as cooperative partners in a business, or an ESOP as described earlier in the chapter.

Acquiring a local company may be a good opportunity for another company in the same geographic area that needs to increase its capacity, or broaden its range of business activity. Clustering and combining small companies under the right terms can be a positive development

for the community and meet the development objectives (access to better jobs at a livable wage, housing, health care, schools, etc.) of the network.

If employee ownership is not a viable option and there is not an appropriate match among buyers to the local community, the network should seek out an owner who is committed to keeping production located in the community. A person who lives in or near the community is more likely to share that commitment, but certainly there are other entrepreneurs and investors in the regional, national, and international arena who are willing and able to be excellent partners with the local workforce and community in building local companies. In all situations, you need to be concerned about an owner's commitment to sustaining production locally, and the ability to further develop the business into a profitable enterprise. Never be so desperate that you do not check out the new owners.

## **Providing other forms of assistance to at-risk businesses**

Some businesses need other forms of assistance, financial or management. A good early warning network must build its contacts with various sources of funds that can make the critical difference in the success, expansion, or failure of a business. However, it should be understood that any type of financial assistance has to follow a careful examination of the company, its books, and its financial management practices to ensure that the investment is needed and will be effectively used.

Some early warning indicators reveal problems that can be solved by good technical assistance, management consulting, and improved access to local resources. This situation requires strengthening current management with new talent or even replacing management. An important resource for a network to develop is access to professional management assistance. Equally important is linking the early warning network to the programs and activities incorporated in the USDOL Enterprise Competitiveness Component.

## **USA: Using feasibility studies to facilitate ownership transfer**

Having advance notice of the intent to downsize or close an enterprise is necessary but not sufficient to save an enterprise and jobs in a community. What can workers and a community do after learning about the possibility of a plant closure? What steps can be taken to determine the economical viability of an enterprise and prevent its closure or departure?

Twenty years of experience in the United States demonstrates that changing the ownership structure of some business enterprises threatened with closure or major layoffs can preserve jobs and prevent layoffs. Therefore, the national worker adjustment assistance legislation (EDWAA) allows DWU rapid response specialists to authorize and finance the conduct of a prefeasibility study to determine whether the purchase of a plant by the workers or other buyers is economically feasible.<sup>12</sup>

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<sup>12</sup>Gary B. Hansen, *Promoting Alternatives for Preventing Layoffs and Plant Closings under EDWAA: An Overview and Resource List for State Dislocated Worker Units*. Logan, UT: Utah Center for Productivity and Quality, Utah State University, July 1, 1989, pp. 19–22.

A prefeasibility or business viability study has been defined as “a preliminary assessment of the advisability of conducting a comprehensive study exploring the feasibility of having a company or group, including the workers, purchase the plant and continue it in operation.” It is a preliminary assessment of both the financial risks and job retention.

From the perspective of a state or local DWU, a prefeasibility study identifies likely failures. From the perspective of the potential buyers, a prefeasibility study is an early and important part of the total process of considering the economic viability of a firm or enterprise as well as a prelude to formal discussions about purchasing it.

## Components of a Prefeasibility Study

The prefeasibility study:

- analyses financial statements;
- roughly estimates the value of the company;
- outlines the financing required for a proposed buyout;
- identifies logical sources of financing and potential financing structures and costs;
- determines the suitability of the firm for a buyout (either employee or otherwise);
- analyses conversion issues;
- reviews the market for the firm’s products or services, how the firm’s products are marketed and other relevant marketing issues;
- assesses management strengths and weaknesses;
- analyses the age and quality of the workforce and labor relations issues;
- considers production issues such as capacities, product quality, and the age, the condition, and the quality of equipment and facilities;
- summarizes findings and makes recommendations.

Upon receiving a request from employees, managers, or some other group, a state or local DWU rapid response specialist carries out a sequence of activities before approving and financing the conduct of a study to determine the feasibility of an employee buyout or purchase of a business enterprise in order to preserve jobs in a community.

### Getting Started

## Conduct pre-feasibility studies to determine if enterprises and jobs can be saved

### Step 1: Establish criteria for approving prefeasibility studies

When a group of workers, managers, or community leaders approach a state or local DWU for financial assistance to conduct a prefeasibility study, the DWU considers the following as part of the approval process:

- Is the prefeasibility study being requested to save a company and workers' jobs? Or is it a tax strategy to reorganize a company to achieve higher profits or fend off a hostile take-over?
- Is a company, group of workers, or organization (e.g., a union local) interested in purchasing the firm? Is the present ownership willing to sell?
- Is retaining the employees a priority of the group interested in conducting the prefeasibility study?
- Is there adequate time to conduct not only the prefeasibility study but also a feasibility study and to obtain financing for the purchase prior to a planned closing or layoff?

## **Step 2: Initiate contact with the group requesting assistance**

Contact can be initiated by the DWI, employees, management, union, local leaders or others desirous of changing the ownership of an enterprise. If initiated by the DWU, the initial contact is to examine the utility of purchasing a company to save workers' jobs.

The DWU initial client contact data collection form asks for:

- *general information* (company name, address, telephone number, contact name and position, a basic description of the company and its products/services);
- *information to determine whether the requesting group or buyout situation meets DWU conditions* (identified in Step 1 above);
- *conversion issues* (current owners and are they willing to sell, potential buyers, the number of employees and are they aware of or involved in the buyout option, is the company unionized, the annual volume of sales, the profitability of the company, any immediate cash problems, etc.); and
- *next steps* (requesting financial statements for the past three years, scheduling an initial client meeting, etc.).

## **Step 3: Make a site visit**

Unless there are obvious reasons for terminating the process, the DWU staff makes a site visit to observe firsthand the situation and talk to the individual or group seeking assistance. The primary purpose of the site visit is to obtain information not gathered in the first contact and to get the financial statements and other materials needed to make a decision about funding a prefeasibility study.

## **Step 4: Review information obtained and make a “go” or “no go” decision**

If initial efforts find that the situation meets DWU conditions and sufficient evidence warrants further study and commitment of funds, arrangements are made to conduct a prefeasibility study. Unless the DWU has adequate resources in-house, or available from a sister state agency (such as the New York Centre for Employee Ownership and Participation or the Massachusetts Industrial Services Program), it typically makes available to the group or organization a list of competent consultants who will contract for the prefeasibility study.

## **Step 5: Prepare and sign an agreement to conduct a prefeasibility study**

The DWU staff prepares and signs an appropriate agreement or contract with the group or individual selected to conduct the feasibility study. The agreement spells out the work to be done, the timeframe, deadlines for completion of the work, and other pertinent information.

## **Step 6: Monitor the progress of the study and review the final report**

A DWU staff member monitors the study and reviews the completed report. Periodically, a file of completed studies is reviewed to determine the correlation between prefeasibility study recommendations and buyouts, conversions, or failures that proceed to a formal feasibility study (sometimes called a business plan).

## **Step 7: Provide follow-up activities if requested and appropriate**

If the prefeasibility study indicates that the transfer or buyout of an enterprise would save it and the workers' jobs, the DWU provides, within its mandate and resources, whatever additional assistance is requested and appropriate to assist the employees, managers, and present owners to achieve their objectives.

In the United States, the cost of a prefeasibility study can range from \$5,000 to \$50,000, depending upon the size and complexity of the firm, the level of analysis, the availability of information, the time available, and the type of group that conducts the study.

A prefeasibility study normally takes several weeks to complete. However, it may take longer for a very large firm because of the complex organizational and financial issues.

If the prefeasibility study concludes that a buyout or transfer of an enterprise is feasible, the individuals or groups initiating the process can move to the next stage of the buyout process—a formal feasibility study that carries the process to its conclusion.

**The formal feasibility study.** The formal feasibility study (or business plan as it is sometimes called) is a comprehensive and in-depth study of the risks and opportunities of the firm and determines whether the buyout or transfer of ownership will be successful. It also is used to convince potential lenders or others to provide the financing for the buyout or transfer.

Usually, several experts are needed to prepare the formal feasibility study (business plan) and guide the required follow-up activities. It is also the blueprint for organizing and operating the enterprise once the buyout or ownership transfer is completed.

**Completing the ownership transfer process.** The ownership transfer process consists of series of steps and actions of increasing complexity, time, and cost. It starts with the prefeasibility study and, in many instances, ends with the purchase of the enterprise.

**Ownership transfer has preserved thousands of jobs.** In addition to the United States and Spain, ESOPs and cooperative-type joint-stock conversions of conventional businesses have preserved or created thousands of jobs for workers in other countries, including developing countries where privatization of state-owned enterprises is taking place. There also appears to be

considerable potential for these forms of ownership as part of the privatization process in Central and Eastern Europe.

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## Plymouth Locomotive: Establishing ownership from the bottom up

A retiring owner, ready to sell his company, received several attractive offers. All of which would close the business and discharge all of the employees. However, the workers, with the help of community leaders and resources to conduct feasibility studies and provide seed money, convinced the retiring owner to give them a chance to buy the enterprise.

In 1985, Sam Krasney, owner of the 105-year-old Banner Industries, was forced by poor health to sell his company. Paske Investments, a European investor, wanted to buy Banner Industries; in part to acquire one of its holdings, Plymouth Locomotive in Plymouth, Ohio. Paske already owned a company that made products similar to Plymouth's lift trucks and locomotives and wanted to close that company. Paske was not the only group that wanted Plymouth. The company's managers thought it would make a very good warehouse, employing about 25 people.

Neither option was beneficial for the 150 or more people who worked for the company nor for Plymouth, Ohio--the major employer of the 1,900 residents.

In January 1986, a Plymouth production planner employee thought of a better solution for the employees and town. He went to Krasney and asked him if the employees could bid on the company. Krasney agreed to consider their offer. During the next 15 months, the employee and his brother, an attorney, worked hard to find a way to buy the company. They had to convince the employees to agree to substantial pay and benefit cuts as well as make up-front equity investments in the enterprise. They had to convince lenders that they could increase productivity and manage the company profitably. And they had to convince Sam Krasney to sell to them.

As part of their efforts, they invited the union to participate in all of the negotiations; the union cooperated fully. They also approached city and state officials to obtain funds for a prefeasibility study and then for a loan to help complete the purchase to save jobs. Eventually, after putting up some money themselves for the prefeasibility study, Krasney gave them some money to complete a full feasibility study, and the city and state loaned them \$515,000. Krasney decided he wanted to see their jobs saved so Banner Industries agreed to loan them another \$1.5 million. The remaining funds for the estimated \$5 million purchase came from private lenders and employee equity. The employees voted 2-1 to agree to the concessions and purchase their company.

The employee-buyers realised that many changes were needed to make Banner successful. A new board of four elected employees and five community business leaders was created, and a new president was hired. Employee involvement was extended to day-to-day issues, and productivity improvement efforts were started.

Since the employees bought the company in 1987, it has returned to profitability. Thanks to profit-sharing, employees have received the highest total compensation they had ever had in Plymouth. The company was still prospering in 1995, and employment has remained constant. In a recent conversation, Dave Adams, one of the managers who was present at the time of ownership transfer, stated unequivocally that "were it not for the employee buyout, I can confidently predict that the business would not be here." Fortunately, today State DWU's can provide funds to finance prefeasibility studies to facilitate ownership transfers like that which occurred at Plymouth Locomotive.<sup>1</sup>

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## Chapter 8

# Strengthen local economies by using business visitation programs

### Using business visitation programs (BVPs) to preserve jobs<sup>1</sup>

Traditionally, economic development strategies have concentrated on attracting or recruiting basic or export-based industries to a community. Export-based industries include agriculture, mining, as well as manufacturing, but most recruitment strategies only focus on attracting manufacturing plants. Not only can this strategy be expensive, but it is highly competitive. In the mid-1980s, R.F. Friedman and W. Schweke estimated that about 16,000 development authorities competed for only 200 corporate moves.<sup>2</sup>

Even when attracting new firms from outside achieves short-term success, this strategy risks long-term failure. Firms willing and able to move to a community because of sufficient incentives are likely to be willing and able to move out of the community to take advantage of better offers elsewhere.

An often overlooked economic development strategy is the retention, expansion, and creation of local firms. Since the mid-1980s, the retention, expansion, and creation of local businesses has increased in popularity for two principal reasons: 1) research by David Birch at MIT led development professional to realize that much of the net change in employment in a region comes from changes in existing businesses rather than attracting new firms; and 2) the development in the 1980s of the business visitation program (BVP) to foster business retention.

During the mid-1980s state business and economic development departments and university business extension units began promoting the use of BVPs, sometimes called business retention and expansion programs, that can be implemented at state and local levels throughout the United States. By 1992, 26 states had some form of state technical assistance to establish BVPs to foster business retention.

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<sup>1</sup>The material in this section has been supplied by Marion T. Bentley, Business Extension Specialist, Utah State University.

<sup>2</sup>R. F. Friedman and W. Schweke, *Expanding the Opportunity to Produce: Revitalizing the American Economy Through New Enterprise Development--A Policy reader*. Washington, D.C.: Corporation for Enterprise Development, 1991.

The rationale for focusing economic renewal and development efforts on the existing business firms in a community is fairly straightforward:

- many local firms grow out of local advantages or demands.
- existing firms have proven their adaptability to local conditions.
- industrial development efforts frequently achieve quicker results by working with local firms than by negotiating with outside interests.
- satisfied local firms provide the best advertisement for attracting new businesses to an area.

While communities can do very little to influence national business trends and consumer attitudes, they can influence a number of development-related activities to help local firms:

- sites or buildings suitable for expansion
- financial services
- suitable employees
- engineering or research for improved products or new ones
- capable subcontractors
- improved transportation, utilities, and safety services
- civic action on housing, education, recreation, and government relations
- vocational training programs
- good community climate and attitude for business

## **Business visitation is an economic renewal and development tool**

A BVP is an economic renewal and development tool with multiple benefit. It rests on the premise that before a community can help local businesses it must first identify the problems or issues affecting their growth and effective operation. Many communities, counties, or provinces elect to implement a BVP to focus assistance and development efforts on improving the local business environment and establishing political support and commitment to implement economic development activities.

A BVP is relatively inexpensive to start. It can be started by a Chamber of Commerce, community economic development organization, or ad hoc task force of community leaders organized specifically to conduct a BVP. It can be done a little at a time and eventually lead to a full-fledged local economic development program.

The BVP recruits respected local leaders to visit and interview local business owners and managers to help them identify their problems and concerns. By identifying the needs and concerns of the local firms, the BVP helps communities set economic development priorities and activities. The visits also give the interviewed owners and managers a clear signal of their importance and contribution to the local economy.

Based on the information gathered, communities can assist and encourage local businesses to grow and expand by reducing their costs and increasing their productivity and competitiveness through:

- infrastructure improvements,

- quality of life changes,
- management training,
- marketing assistance,
- government procurement,
- networking,
- technical assistance,
- custom-fit training,
- financing,
- tax breaks, and other incentives.

The success of a BVP depends largely on community follow-up that addresses and remedies the issues facing the business community. Plus communities that assist firms in these areas can improve their locational advantages.

However, as a local economy experiences structural changes, the comparative advantage of a community as a location for specific industries may change. Some firms may be forced to close, and some types of labor may be forced to accept lower wages or forego wage increases. However, BVPs can provide an early-warning system of impending plant closures, thus facilitating adjustments for the community, the plant, and its workers.

In summary, a BVP has five objectives:

- to demonstrate a community's commitment, concern, and interest in local business operations and appreciation for their contribution to the local economy.
- to help local businesses solve problems or improve their ability to work with local governments, thus cutting their costs of doing business.
- to help use state, regional and national programs, especially those that improve the efficiency of firms in production or marketing.
- to develop a database for local economic renewal planning, thereby improving the climate for growth.
- to establish an early-warning system for impending plant closures, allowing communities to adjust more rapidly and painlessly.

## **Business retention and expansion process**

To organize and mobilize the necessary resources for effective program implementation, most BVPs follow a structured process. The following steps are typical for a community BVP:

### **Step 1: FIRM VISITS**

- Organize a local task force
- Recruit volunteer visitors
- Train volunteer visitors for firm visits
- Prepare a survey instrument and confidentiality agreement
- Conduct volunteer visits to targeted firms

### **Step 2: "RED FLAG" ISSUES AND IMMEDIATE FOLLOW-UP**

- Task force reviews "Red Flag" concerns
- Immediate follow-up to assist firms with "Red Flag" concerns

**Step 3: DATA ANALYSIS AND RECOMMENDATIONS**

- Code and enter data into computer
- Analysis by business school faculty member or other qualified person
- Develop suggested recommendations
- Review task force findings
- Adopt task force recommendations

**Step 4: COMMUNITY MEETING AND IMPLEMENTATION**

- Hold community meeting to share results with others
- Implement adopted recommendations

**Firm Visits and Follow-up**

The most visible aspect of a BVP is the company visit. One or two volunteer leaders visit each targeted local business for a confidential one-hour interview. During the interview they use a carefully constructed survey questionnaire to collect data about the company's outlook, concerns, and information needs.

When the survey is completed, immediate follow-up actions for individual firms and long-range planning for community-wide programs are initiated. The local coordinator and a 10- to 15-member task force of local leaders follow up on the interviews by addressing the concerns, requests, and problems mentioned by the firms during the interviews. Response and follow-up are critical for local development efforts.

**Impacts**

In the short run, local businesses greatly appreciate the community's interest in their operations and help with solving their problems so they can grow and expand. Another short-run benefit of BVPs is the spirit of cooperation that develops among local development groups. On-site visits by BVP community teams reinforce this cooperation and generate a wealth of information about the positive and negative factors of a community's business climate. In the long run, the addressing of problems and the changes that occur improve employment and income opportunities.

**Getting things started with business visitation in your community****What is needed to start a BVP?**

The following is necessary to establish a BVP in a community:

- A local sponsoring group, such as an economic development committee or Chamber of Commerce.
- A person willing to be the local coordinator.
- Readiness to accept the need for confidentiality.
- A local task force to direct the BVP and volunteer visitors.
- The necessary time and resources to complete the initial BVP questionnaire.
- Willingness to follow up on the expressed concerns about local issues.
- An understanding that the BVP is ongoing, not a single effort.

Communities thinking about establishing a new BVP should:

- Find out what has already been done in their community under the name of business retention and expansion. Some communities have attempted to participate in something less systematic than a BVP.
- Do not reinvent the wheel. Talk to other communities before starting a local program to learn from their mistakes and experiences. Use state- or province-level orientation programs and survey instruments, if available, and determine if other communities recommend them.
- Select the right local coordinator. Ideally, the coordinator has had experience with community economic development and the ability to work with volunteer groups effectively. This is very important. The coordinator can then add other important economic developments skills and rely on volunteers with special skills to add strength to the overall effort.
- Select a strong local task force. Both breadth of representation, and strong and eager individuals are needed on the local BVP task force. The quality of this task force is as important as the coordinator. Membership should include leaders in business, government, education, and development professionals.
- Train the BVP volunteer visitors well. Poorly trained volunteer visitors result in low participation rates and inadequate data collection during visits. Some groups do not allow anyone who has not attended the volunteer training program to visit firms.
- Involve the task force in a review of the surveys. Research shows that groups that do this are more likely to be successful. Respond quickly to “Red Flags”.
- Empower local leaders to make the final decisions on the recommendations in the BVP report. The recommendations depend on more than professional analysis. They require value judgements on what the community will accept and can afford to implement.

## **USA: Positive results of the Portsmouth, New Hampshire, BVP**

In 1994, the Greater Portsmouth Chamber of Commerce implemented a BVP to conduct surveys of businesses in the area.<sup>3</sup> In 1996 a second BVP survey was conducted, sponsored by the Chamber, the Portsmouth’s Economic Development Committee, the New Hampshire Office of Business and Industrial Development, and the New Hampshire Job Training Council. The second survey found that follow-up efforts after the 1994 survey had been successful. On a scale of 1 to 5 (1 being the highest score), the area received a 2.04 rating as a place to do business.

According to David Colby, chairman of the Chamber’s Business Development Committee, the intent of the BVP was to survey all types of local businesses to identify areas where local, regional and state resources could help them retain jobs and stimulate job growth.

The 40 companies that participated in the 1996 BVP survey expressed a high degree of satisfaction with their seacoast location and their ability to do business in the area. The firms ranged from a one-person operation to a company with 173 full-time employees. The names of the companies were not made public by agreement with those who participated. Confidentiality

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<sup>3</sup>Prepared from material submitted by the New Hampshire Office of Business and Industrial Development.

among volunteer visitors, chamber staff and state officials is ensured by a strict “need to know” policy. All concerned BVP participants sign a confidentiality agreement.

The surveyed companies said they could use assistance with several concerns, including employee training, state regulations, marketing strategies and financing new activities. Among the areas the business owners were dissatisfied with were the state’s tax structure, workers compensation and the escalating costs of electricity. Asked to rate a variety of local services, business owners reacted negatively to the availability of airport facilities, public parking, quality drinking water and local rules governing signage.

Business owners reacted most positively to the scenic beauty of the area, the work ethic, the positive business environment, favorable wage rates and the skill levels of the workforce. Areas the business owners were most satisfied with included the number of people available to work for minimum wages, state highway programs and the services offered by the state employment office.

Among the areas that could affect their profitability in the next five years, owners cited domestic competition, taxes and government policies, wage rates, energy costs, workers compensation rates, the cost of health care and raw materials and the region’s work ethic. Portsmouth businesses specifically requested more information on several state-regulated issues, including labor, environmental matters and energy and utility-related concerns. Business owners also requested information on several financing programs, including expansion, new acquisitions and working capital.

Companies that had expanded during the past five years cited as the primary reasons for their expansion the fast growth/increased demand for their products, the fact that the business had not existed five years previously and an increase in sales. Companies considering relocating to the area cited as their reasons an overcrowded building, a dominant reason, a lack of land available for expansion, and transportation problems.

**APPENDIX I**  
**JUAB COUNTY**  
**BUSINESS RETENTION AND EXPANSION PROGRAM**  
**INTERVIEW GUIDE**

Firm ID: \_\_\_\_\_  
Date: \_\_\_\_\_

**A. BUSINESS CHARACTERISTICS:**

1. Position of person completing this survey:
  - a. Owner
  - b. Manager
  - c. Other (specify) \_\_\_\_\_
  
2. What are the major products or services offered by your business?  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_
  
3. When was your business established? Year \_\_\_\_\_
  
4. How long has your firm been at this location? \_\_\_\_\_
  
5. Is your business seasonal? \_\_\_\_\_ Yes \_\_\_\_\_ No  
 If Yes, when is your busy season? \_\_\_\_\_
  
6. If your business is seasonal, could anything be done to extend the season?  
 \_\_\_\_\_  
 \_\_\_\_\_
  
7. Do you own, operate, or manage any other business(es)?  
 \_\_\_\_\_ NO \_\_\_\_\_ Yes  
 If yes, please list other businesses: \_\_\_\_\_  
 \_\_\_\_\_
  
8. Do you own or have you owned a business in a different community?  
 \_\_\_\_\_ Yes \_\_\_\_\_ No  
 If yes, what, where and when? \_\_\_\_\_  
 \_\_\_\_\_

**B. LABOR FORCE:**

1. How many employees work at this establishment? Please break this out between full-time and part-time for the three time periods shown:

	Full-Time	Part-Time
Current	_____	_____
Five years ago	_____	_____
Five years from now (projected)	_____	_____

2. If the number of employees has increased or decreased in the past five years, please tell us why: \_\_\_\_\_  
\_\_\_\_\_
3. Would you hire additional employees if you could get a tax credit or other assistance?  
Yes \_\_\_\_\_ No \_\_\_\_\_
4. Do you have any frustrations about the labor force? If so, rank biggest problems (1 highest)  
Literacy \_\_\_\_\_ Turnover \_\_\_\_\_ Work Ethic \_\_\_\_\_  
Absenteeism \_\_\_\_\_ Other (specify) \_\_\_\_\_ Skills \_\_\_\_\_

**C. COMPETITION:**

1. Do you have any competition? Yes \_\_\_\_\_ No \_\_\_\_\_
2. What do you see as your main source of competition?  
a. Local Buiness and Industry  
b. Regional (Western US) Industry  
c. National (US) Industry  
d. International Industry  
e. Oher (specify) \_\_\_\_\_
3. Would you say that your competitors are:  
a. Losing ground to you  
b. Making significant inroads on your market share  
c. Future threat  
d. No real impact  
e. Have never been a consideration

**D. SOURCES OF GOODS, SUPPLIES AND INVENTORY:**

1. What are the most important supplies, services, and other goods that your business uses?

Supply, service, or goods used	What percentage is purchased from outside the county?	Would you buy this locally if available?
a. _____	_____ %	Yes No Unsure
b. _____	_____ %	Yes No Unsure
c. _____	_____ %	Yes No Unsure
d. _____	_____ %	Yes No Unsure
e. _____	_____ %	Yes No Unsure

2. Are you experiencing any problems with cost, quality, supplies, or services?

Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, explain: \_\_\_\_\_  
\_\_\_\_\_

3. List any needed sources of supplies, services, and goods.

\_\_\_\_\_  
\_\_\_\_\_

4. Do you see a need for general warehousing and storage facilities in the area?

Transportation needs? \_\_\_\_\_

**E. LOCAL SERVICES:**

1. Please describe any problems you have experienced with local services provided by the town, county, utilities, etc.:

\_\_\_\_\_  
\_\_\_\_\_

2. Please list any needed services which are currently unavailable:

\_\_\_\_\_  
\_\_\_\_\_

**G. Business Technology:**

1. What electronic technology does your business currently utilize?

a. Fax/Modem \_\_\_\_\_

- b. Stand Alone PC's \_\_\_\_\_
  - c. Networked PC's \_\_\_\_\_
  - d. Laptops \_\_\_\_\_
  - e. CD-ROM/Multi-media software \_\_\_\_\_
  - f. Internet/On-line services \_\_\_\_\_
  - g. Video or Teleconferencing \_\_\_\_\_
  - h. None \_\_\_\_\_
  - i. Other (describe) \_\_\_\_\_
2. What software does your business currently use?
- a. Word Processing \_\_\_\_\_
  - b. Spreadsheet \_\_\_\_\_
  - c. Accounting \_\_\_\_\_
  - d. Data Base \_\_\_\_\_
  - e. Desk Top Publishing \_\_\_\_\_
  - f. Other (Describe) \_\_\_\_\_
3. What business technology investments do you plan for 1996/97?
- a. Fax/Modem \_\_\_\_\_
  - b. Stand Alone PC's \_\_\_\_\_
  - c. Networked PC's \_\_\_\_\_
  - d. Laptops \_\_\_\_\_
  - e. CD-ROM/Multi-media software \_\_\_\_\_
  - f. Internet/On-line services \_\_\_\_\_
  - g. Video or Teleconferencing \_\_\_\_\_
  - h. None \_\_\_\_\_
  - i. Other (describe) \_\_\_\_\_
4. What technology investment frustrations are you currently experiencing?
- a. Not enough information \_\_\_\_\_
  - b. Don't know what we need \_\_\_\_\_
  - c. Don't know how to use available technology \_\_\_\_\_
  - d. Too many choices \_\_\_\_\_
  - e. No expertise in assesing benefits of technology \_\_\_\_\_
  - f. concern that technology will be rapidly outdated \_\_\_\_\_
  - g. Other (Describe) \_\_\_\_\_

**G. ASSISTANCE NEEDED BY BUSINESSES:**

1. Would you be interested in receiving additional information or training in any of the following management areas? Please circle all that apply or mark an X by critical needs.

**1. RECORDS AND FINANCIAL MANAGEMENT**

	<u>Information</u>	<u>Training</u>
a. Maintaining daily/weekly business records	_____	_____
b. Preparing financial statements	_____	_____
c. Preparing tax statements	_____	_____
d. Performing financial analysis	_____	_____
e. Paying bills on time	_____	_____
f. Collecting receivables	_____	_____
g. Using tax reduction strategies	_____	_____

**2. EMPLOYEE RELATIONS**

a. Finding qualified employees	_____	_____
b. Keeping good employees	_____	_____
c. Training employees	_____	_____
d. Employee motivation	_____	_____
e. Substance abuse	_____	_____
f. Wage levels	_____	_____
g. Communication with employees	_____	_____

**3. STORE OPERATIONS**

a. Quality control	_____	_____
b. Cost reduction	_____	_____
c. Business planning	_____	_____
d. Inventory control	_____	_____
e. Stealing/shoplifting	_____	_____
f. Product pricing	_____	_____
g. Developing new products	_____	_____
h. Advertising product display and merchandising	_____	_____
j. Packaging	_____	_____
k. Increasing sales	_____	_____
l. Exporting	_____	_____
m. Capturing market share	_____	_____
n. Salesperson competency	_____	_____

o. Customer service(interested in Super Host?) \_\_\_\_\_

**4. FINANCING**

- a. Availability of short-term loans(revolving loan fund) \_\_\_\_\_
- b. Availability of long-term loans \_\_\_\_\_
- c. Workers' compensation \_\_\_\_\_
- d. Unemployment insurance \_\_\_\_\_
- e. Business insurance costs \_\_\_\_\_
- f. Employee health insurance costs \_\_\_\_\_

**5. Business Technology**

- a. Internet/On-line services \_\_\_\_\_
- b. Video or Teleconferencing \_\_\_\_\_
- c. Business Software \_\_\_\_\_
- d. Networked PC's \_\_\_\_\_

2. Would a consumer information survey be useful to you in your business?  
 Yes \_\_\_\_\_ No \_\_\_\_\_  
 If Yes, what information would you like to obtain?

---

**I. BUSINESS PROBLEMS:**

1. Please describe any serious problems relating to your business which could potentially cause you to go out of business: \_\_\_\_\_

---

**J. FUTURE BUSINESS FACTORS:**

- 1. Is your business planning to expand in the next five years?
    - a. Yes
    - b. No
    - c. Not sure
  
  - 2. If planning to expand, are there barriers to expansion? Yes \_\_\_\_\_ No \_\_\_\_\_  
 What are they? \_\_\_\_\_
-

3. Are you currently considering moving or closing your business?
  - a. Considering moving
  - b. Considering closing
  - c. Neither

**K. HOW WOULD YOU RATE THE FOLLOWING FACTORS IN THIS COMMUNITY?**

Excellent &gt; &gt; &gt; &gt; Very Poor

## Business Cost Factor

1. Labor costs	1	2	3	4	5
2. Transportation costs	1	2	3	4	5
3. Energy costs	1	2	3	4	5
4. Local taxes	1	2	3	4	5
5. State taxes	1	2	3	4	5
6. Land costs	1	2	3	4	5
7. Building costs	1	2	3	4	5
8. Other costs _____	1	2	3	4	5

## Community Services

9. Fire	1	2	3	4	5
10. Police	1	2	3	4	5
11. Water	1	2	3	4	5
12. Sewer/Garbage	1	2	3	4	5

## Government/ Business Services

13. Elected Officials	1	2	3	4	5
14. Chamber of Commerce	1	2	3	4	5
15. Economic Development	1	2	3	4	5

## Other Business Factors

16. Labor availability	1	2	3	4	5
17. Raw materials availability	1	2	3	4	5
18. Major airport proximity	1	2	3	4	5
19. Highway proximity	1	2	3	4	5
20. Rail service availability	1	2	3	4	5
21. Telecommunication	1	2	3	4	5

## Quality of Life Factors

16. School	1	2	3	4	5
17. Vocational school	1	2	3	4	5
18. Higher education	1	2	3	4	5
19. Recreational opportunities & attractions	1	2	3	4	5
20. Public services	1	2	3	4	5
21. Housing availability	1	2	3	4	5
22. Medical care	1	2	3	4	5
23. Child care availability	1	2	3	4	5
24. Arts/Entertainment	1	2	3	4	5

25. Services for Elderly & Retirees      1      2      3      4      5

1. Does the current residential housing situation affect your business? Yes \_\_\_\_\_ No \_\_\_\_\_  
     Housing is: ok \_\_\_\_\_ Shortage \_\_\_\_\_ Severe Shortage \_\_\_\_\_
2. Does Juab County provide sufficient services for retirees? Yes \_\_\_\_\_ No \_\_\_\_\_  
     Explain \_\_\_\_\_

**L. BUSINESS AND ECONOMIC DEVELOPMENT**

1. Does development of recreational opportunities and attractions affect your business?  
     Yes \_\_\_\_\_ No \_\_\_\_\_
2. Of the following events/attractions, which impact local business and economic development the most? Rank the top 5 in importance with 1 the highest. Please specify reason for importance.

	How is it Important?
County Fair Days	_____
July 4th Activities	_____
July 24th Activities	_____
Softball Tournament	_____
Golf Course	_____
Swimming pools	_____
Hiking	_____
Mountain Biking	_____
State Parks	_____
High School Events	_____
Hunting and Fishing	_____
Musical Events	_____
Other	_____

3. List in order of importance (1 highest) which community projects would be most beneficial to improve the quality of life and improve economic development in the area:

Community Center	_____
Performing Arts Center	_____
18 Hole Golf Course	_____
More Arts/Entertainment Activities	_____
Infrastructure Improvements	_____
Community Beautification Efforts	_____
Other	_____

4. Do you feel that economic development is needed in Juab County? Yes \_\_\_\_\_ No \_\_\_\_\_  
If yes, what kind of economic development is needed? \_\_\_\_\_

5. The primary reasons for economic development in Juab County are:

	Unimportant	>	>>	>>>	Important	Comment
Create Jobs	1	2	3	4	5	_____
Increase Tax Revenue	1	2	3	4	5	_____
Improve Quality of						
Employment Opportunities	1	2	3	4	5	_____
Diversify Current Economy	1	2	3	4	5	_____
Recruit New Businesses	1	2	3	4	5	_____
Help Existing Businesses Grow/Expand						
	1	2	3	4	5	_____
Improve Community Image	1	2	3	4	5	_____
Organize Community Resources						
	1	2	3	4	5	_____
Maintain Community Vitality	1	2	3	4	5	_____
Too many people/traffic	1	2	3	4	5	_____
Growth problems	1	2	3	4	5	_____
Worse Quality of Life	1	2	3	4	5	_____
Other (specify)						
_____	1	2	3	4	5	_____

6. What does economic development mean to you?

7. Are there negative aspects of economic development in Juab County?

**R & E TASK FORCE FOLLOW-UP WORKSHEET**

FIRM ID \_\_\_\_\_ COMMUNITY/COUNTY \_\_\_\_\_ DATE OF VISIT / / \_\_\_\_\_ TODAY'S DATE / / \_\_\_\_\_

Responses that need follow-up (Questions #)	Nature of Concern/ Problem	Recommended Follow-up	Who? When

## Chapter 9

# Determine if tourism development is good for your community

*[The material in this chapter is excerpted from the electronic version of the Community Tourism Assessment Handbook, developed by the collaborative effort of a regional team under the auspices of the Western Rural Development Center. It was completed in 1993 and an electronic version placed on the Internet by the WRDC in 1996.]*

### Introduction and background

Tourism development is one of several economic development strategies available to communities. Most communities concerned with economic development will want to consider it along with such strategies as industrial recruitment, local business start-ups, retail trade capture and business retention and expansion efforts. Some communities will find they have very real potential for expanded tourism, other communities will find their potential more limited, and still others may conclude the social, economic, and environmental costs associated with tourism development are not worth the possible benefits.

Communities need a guide through a process that not only helps them determine their actual tourism potential, but also requires them to estimate the costs (social, economic, and environmental) as well as benefits of tourism development before deciding it is a strategy worth pursuing. If the assessment process leads a community to decide it wants to develop its tourism potential, then materials on post-assessment activities like product development, marketing and management should be sought.

This Chapter is designed to introduce CER participants to a structured process that can be used by community members and by Industrial Adjustment Specialists working with communities on their tourism development efforts. The process resulted from the collaborative efforts of state governments and land grant universities in the Western United States. Because there were no suitable materials or manuals to help the communities determine the costs and benefits associated with tourism development. The project was funded by the Western Rural Development Center and carried out by a regional team and prepared by Montana State University faculty and staff in the early 1990s. Subsequently, it was published in 1996 and has been used widely in other western states.

## Importance of tourism on local economies

United States Travel and Tourism Administration (USTTA) figures reveal why tourism development is an economic development strategy many rural communities are considering these days. In 1992 global expenditures on tourism totaled \$3.5 trillion dollars, making it the largest industry in the world. The World Travel and Tourism Council predicts it will account for 13% of the world's consumer spending in 1993. Tourism is the fastest growing sector of the U.S. economy. Between 1985 and 1990 tourism expenditures increased by 43%. It is currently the sector with the largest U.S. trade surplus.

Tourism development may be of special interest to rural communities in CEE countries whose natural resource-based industries have declined. It can help diversify the local economic base, thus reducing dependence on a single economic sector and make contributions to many types of local businesses as shown in Table X.1. Jobs in tourism, particularly farm-based tourism, can help families keep their farm or ranch. Due to its "clean" character, tourism also may help communities maintain the natural environment and quality of life they have traditionally enjoyed. You can evaluate these and other benefits for your community through the process contained in this chapter.

### Positive returns from tourism

Two brief examples show just some of the positive returns from pursuing tourism as a community development strategy.

Tourism has been the primary industry in the small town of West Yellowstone, Montana since its founding in 1908. To help improve the community's infrastructure and to capitalize on the number of visitors traveling through their community, the town instituted a 3% resort tax in 1986. In 1993 the town enjoyed nearly one million dollars in additional income from resort tax collections. Thanks to the resort tax, and thanks to the visitors who paid the tax, West Yellowstone now has new paved streets, better police and fire protection and emergency medical services.

Sandpoint, Idaho used its tourism industry to expose the community to more people as a strategy to diversify the local economy. They successfully attracted new mobile, light industries to the area. Other positive results of tourism development were reduced unemployment, an increase in per capita income, and increased private capital investment in major tourism developments.

### Some of tourism's costs

These same two communities serve as examples of some of tourism's costs that you will want to consider in your assessment process. Additional examples show that the distribution of benefits and costs may not be evenly spread throughout the community. Some people may be feeling very positive about the tourism industry because they are reaping rewards (profits) from it, while others feel negatively because the impacts on their life have been negative. You will want to consider this equity question as you assess the benefits and costs of tourism development for your community.

Sandpoint, Idaho, has had to cope with parking and traffic circulation problems. Tourism brings increased pressure on the physical and public services infrastructure of the community. Local government services and infrastructure such as roads, solid waste disposal, sewer systems, fire and police protection may require upgrading or expansion at local tax payer expense to meet tourist demand.

Tourists compete with local residents for limited recreational resources in West Yellowstone. There are over 70,000 angler-days a year of pressure on a twenty mile stretch of the Madison River before. Eighty five percent of the pressure was from non-residents. Many locals feel the guided non-resident fishing has greatly diminished the quality of the fishing experience. West Yellowstone residents have abandoned a local swimming hole since its discovery by tourists. Outfitter hunting leases have closed many private ranches to resident hunters in Eastern Montana.

## **Tourism assessment process**

The components to a tourism assessment process described in this Chapter are intended to guide community economic development groups through an assessment process with minimal outside assistance to help them identify what role, if any, tourism can play in strengthening their local economy. This self-help approach was chosen because of the reality of limited resources that may be available to assist communities in this process. In today's world of fiscal crises at all levels of government, it is more important than ever for citizens to have the tools they need to address their own issues and problems. Consequently, local organization is the first step in the process.

### **The process is divided into nine steps and takes eight months to complete**

The process is divided into steps corresponding with nine components. Each Step describes the component's purpose, objectives, and main decisions to be made. Then detailed how to instructions with sample processes and forms to use are provided. Guidelines for evaluating results also are included. Many of the components will be familiar to you from other community development activities such as the CER process that you have done or are in the process of doing, which have included most of the basic assessment tools such as strategic planning or visioning. However, working through this tourism assessment process will enhance your skills relevant to other community development efforts.

The components of the tourism assessment process could be completed one at a time in the order presented in the steps. Experience, however, indicates more committee motivation and interest if certain steps are started early on even if they won't be completed until later.

This process uses a schedule for working through the nine components over an eight month period. Eight months may sound like a long time, but during the process the community will attain some short-term successes and by the end they will have plans in hand for long-term projects. Plus, they will have learned a process that can be used over and over again as they assess each new tourism or other economic development project they wish to implement in the future.

## **The nine components are as follows:**

The nine components of the Community Tourism Assessment Process are as follows:

### **1: Community Organization**

The community will need to form a local team, or a Community Tourism Assessment Action Committee, under the leadership of a Local Coordinator to carry out the tourism assessment process through monthly committee meetings, with additional task force efforts in between. This step requires identifying and recruiting a team of local volunteers dedicated to improving their community. It also includes review of committee and task force roles, responsibilities and time commitments to prepare members to work effectively as a team to carry out the assessment.

### **2: Current Visitor and Economic Profiles**

Existing data will be compiled to capture a picture of the current impact of tourism and other sectors on the overall local economy. Visitor travel patterns and characteristics will be analyzed to gain an understanding of the profile of persons who visit the community or its region or state. These profiles will serve as the basis for later economic analyses. The level of analysis at this point will depend upon availability of existing data.

### **3: Resident Attitude Survey**

A survey will be conducted to assess how the tourism industry stacks up in the minds of residents. This information will be key in determining local receptivity to potential tourism development and promotion.

### **4: Visioning and Goal Setting**

The community will develop a vision of where they would like to see their community in the future and how tourism fits into that vision. They will set goals for tourism development to help them work toward realization of their vision.

### **5: Tourism Marketing Basics**

Basic tourism marketing information is studied to highlight the importance of offering value to the tourist as well as the community. The marketing basics of supply (what we have to sell) and demand (what potential visitors want to buy) are key elements of this marketing introduction to help the committee better understand its realistic markets and how to develop products of value to those markets.

### **6: Attraction and Facility Inventory**

The committee will inventory all existing attractions and tourism-related facilities in the area and then rate them on their value to tourists and competitive advantage. They also will assess the community's infrastructure, such as water, sewer, and transportation systems, to determine the local capacity to support an expanding tourism industry.

### **7: Potential Project Identification**

The committee will identify priority short- and long-term projects to further evaluate through a rating process. The rating scale is based upon the three main criteria brought out in the

Marketing Basics section: value to the tourist, value to the community, and competitive advantage.

### **8: Initial Project Scoping**

Task forces will develop a basic description of each of the priority projects, including projected revenues and costs (construction, operation, and maintenance), employment, and infrastructure needs.

### **9: Impact Analysis**

Impact analysis is conducted to predict the probable economic, social, and environmental costs and benefits of each scoped-out project. The analysis will suggest who or what may be positively and adversely impacted by the proposed developments to help the community decide which, if any, of the projects should proceed.

### **What comes next?**

At the end of the assessment process the community will be at one of three places: They may have found that tourism is no longer a development strategy they wish to pursue. Or, they may not have identified any specific projects that pass the assessment, but still have a desire to pursue tourism. Or, they might have a list of one or more projects to develop.

*An important thing to remember is that this process assumes that the community has already completed some strategic planning which identified tourism as a priority strategy to further investigate*

In the first situation, the community can turn to other economic development strategies. In the second, they can return to the committee's project identification list and inventory report and proceed to assess other potential opportunities that they did not see in the first round. In the third case, they will proceed to the post assessment phase which involves many of the same procedures that you will have carried out during the USDOL/WSI Community Economic Renewal process. The post assessment phase of the tourism assessment process involves:

**Project Development:** Preparation of development plans which will outline what needs to be accomplished, by whom, and by what date.

**Marketing:** Drafting marketing plans.

**Implementation and Management:** Conducting additional research and/ or development efforts; pursuing funding alternatives; initiating business plans.

**Monitoring and Evaluation:** Determining if stated goals are being met and helping ensure that acceptable levels of change to the community way of life are not exceeded.

## **How to obtain the mores and the training to carry out a tourism assessment**

Each step in the getting started section that follows will tell you what to do to complete the component. how to organ ize your committee to get the work done, and what materials and. possible outside resource persons you will need. In the interests of time and space, the Attachments and Forms used to conduct a tourism assessment in a community have not been included in this short version of the resource handbook. However, all of the attachments and forms are available on the Internet from the website of the Western Rural Development Center at Utah State University. [The Interned address is [www.ext.usu.edu/wrdc](http://www.ext.usu.edu/wrdc)]

If your community decides to use this tourism assessment process, the USDOL/WSI Project Office and Industrial Adjustment Specialists will be able to help you access the complete set of attachments, forms and other materials you will need to do so. Depending on the availability of resources, the Project Office may also be able to provide training and technical assistance to help carry out the tourism assessment process in your community

### **Getting Started**

## **Steps to start and complete a community tourism assessment**

To provide an understanding of the community tourism assessment process, material from the Community Tourism Assessment Handbook has been adapted for presentation in this section. The Handbook contains nine steps for community teams to follow as they carry out a tourism assessment for their community. The nene steps that conrprise the tourism assessment process are discussed in greater detail.

### **Pre-tourism assessment considerations**

The purpose of the leadership and organizational step is to help the community form a dedicated local team, or action committee, that can successfully carry out the tourism assessment process. The process is a major volunteer effort involving at least monthly committee meetings, with additional specific task force meetings in between. It can be expected that different interests within the action committee and individual task forces may be at odds during some of the steps, so skillful leadership and a truly dedicated group will be needed.

This step requires identifying and recruiting a team of local volunteers dedicated to improving their community. It recommends types of leadership training to help these volunteers work effectively as a team. It also calls for local government endorsement of the team and their efforts as the official community tourism assessment project.

## Step 1: Community organization

*More good community projects fail due to leadership bogged down than for any other reason.*

*Do we have the resources (time, skills) to commit to this tourism assessment process?*

*How should we organize ourselves to get the job done?*

*What additional training should we seek to increase our skills in leading the process?*

### Purpose

#### Organization and Leadership

The purpose of the leadership and organizational step is to help the community form a dedicated local team, or action committee, that can successfully carry out the tourism assessment process. The process is a major volunteer effort involving at least monthly committee meetings, with additional specific task force meetings in between. It can be expected that different interests within the action committee and individual task forces may be at odds during some of the steps, so skillful leadership and a truly dedicated group will be needed.

This step requires identifying and recruiting a team of local volunteers dedicated to improving their community. It recommends types of leadership training to help these volunteers work effectively as a team. It also calls for local government endorsement of the team and their efforts as the official community tourism assessment project.

### Objectives

By the end of this step, the community will have recruited a community tourism action committee, and the action committee will:

- be oriented to the overall process prescribed in the chapter
- be organized into positions to perform required functions.
- have considered some leadership training in project management, communication, conflict management, publicity, and volunteer motivation.
- have secured endorsement of the project by local government and economic development groups.

## How to conduct this step

### Form/Recruit the Action Committee

**Member Selection Guidelines.** The action committee should consist of 15 to 20 community leaders. The two most important criteria for action committee members is that they are considered legitimate community leaders, and that they can get along with each other. The members will need to be able to work together as a team for the life of the project. For the

committee's recommendations to be adopted and implemented the members will need to be seen as legitimate community leaders.

The assessment process described in this handbook requires participation by all elements of the community likely to be effected by tourism development. This means persons from groups who will likely profit from tourism development as well as those who may feel threatened by such development. It benefits considerably from the involvement of local expertise.

Before starting a new committee, you should consider whether an existing organization in your community, like the Chamber of Commerce, already feels tourism is their responsibility. You may or may not choose to affiliate your effort with the existing one. It would be wise to at least include representation from that organization to avoid duplication of effort and possible resistance to your project.

#### ***A. Characteristics desired of all members***

- .Sincere desire to contribute to community improvement
- Commitment to stay with the process through its completion
- Experience in leading community wide volunteer efforts
- Respect and appreciation for the views of others
- Recognized as leaders in the community
- Recognized as leaders from the groups/organizations they represent
- Ability to work with others as a team

#### ***B. Recruit representatives from all groups and interests***

Recruit representatives from all groups and interests in the community, including those people within the communities who greatly influence what does and does not take place in a community.

## **Clarify and Accept Roles and Responsibilities**

Members must clearly understand the project's mission and their time commitment, roles and responsibilities in order for the project to be successfully completed.

The general mission envisioned by the team that developed the community tourism assessment handbook is:

***The Mission of the Community Tourism Action Committee is to assess the potential for tourism development of (your community name) and to evaluate the social, environmental, and economic impacts of proceeding with developing that potential.***

You may choose to adopt this statement as is or modify as appropriate to fit your own situation. We do not recommend you spend a lot of time on this at this point. (Attachment 1-B contains the mission statement in a form that you could print to display at meetings or reproduce as an overhead.)

This process is a substantial volunteer effort that will persist over many months. You do not want to start with false impressions of what can be accomplished in too little time. To avoid discouragement it is better for volunteers to be aware of the actual commitment they are making up front. Refer back to the Implementation Schedule (Figure X-2) and Outline (Attachment X-A) in the Introduction.

### ***A. Provide community-wide representation***

A major responsibility of the action committee is to insure all elements of the community -- not just the pro tourism development segments -- are represented in project deliberations. This can be accomplished by broad representation on the committee itself, by keeping the community informed of all the committee's activities, and by insuring opportunities for all sectors of the community to participate in decisions that might impact their interests. Attachment 1-C contains some sample newspaper articles communities have published to raise awareness of the project.)

### ***B. Conduct each of the project's steps***

The process is designed to be conducted by local citizens. Ensuring that each of the steps is adequately conducted is the responsibility of the local action committee. The committee itself will be involved in each step of the process. To adequately complete some steps they will probably need to recruit assistance from other community representatives or outside experts. But, the ultimate responsibility for the project's completion lies with the action committee.

The action committee will need to:

- conduct regularly scheduled meetings and complete homework assignments to insure each step is completed on time.
- identify and obtain any local and outside resources needed for each step.
- develop and oversee completion of work plans for each step indicating what needs doing, who will do each task, when each task must be finished, and how the committee will know each task is completed.
- encourage community-wide participation in all steps.
- publicize the intent and findings of each step.
- ensure written records are kept of all committee sessions.
- conduct community-wide meetings to review major recommendations.

All members of the action committee should be asked to make a verbal commitment to the group that they will contribute the time required to fulfill the roles and responsibilities.

## **Establish organizational structure**

The tourism assessment project requires that a number of organizational functions, as listed in the above section on Roles and Responsibilities, be fulfilled. To perform these functions the action committee can be organized as follows:

- An Executive Committee to oversee the entire process, determine decision making processes (voting, consensus etc.), provide publicity, and ensure local implementation of all the steps.
- A Local Coordinator to conduct meetings, serve as the local contact for supporting agencies, and represent the project to local organizations and governments. This person will be responsible for leadership of the process between committee meetings, monitoring so necessary work gets done by task forces. The Coordinator should

prepare and distribute materials for each meeting at the end of the previous meeting so members can review and be ready for the new steps they will undertake.

- Task Forces to conduct specific steps. Here is where you are likely to recruit assistance from non-action committee members. These groups will be formed to get specific tasks done and then disband.
- A Secretary to keep minutes, send out meeting announcements, and maintain all records and reports.
- A trained, experienced and most importantly neutral Meeting Facilitator should be identified to guide the group through tough decision making sessions.

Attachment 1-1 contains some hints for chairpersons and committee members to help them fulfill their responsibilities and hold productive meetings.

## **Attend leadership training**

To help the committee work together successfully through the entire process members would be well advised to participate in leadership and organizational skills training sessions. The purpose of the training is to help task force members:

- understand the shared leadership and member's roles required for successful teams,
- recognize how their efforts depend on interaction with other elements of the community,
- develop communication skills necessary for group participation,
- generate the motivational requirements to keep members participating through the life of the project, and,
- develop skills for managing conflict, which is a normal occurrence in community projects.

Leadership training provided as part of Phase II of the CER Component covers such areas as planning and implementing community projects, individual and group communication skills, meeting management, teambuilding, and group problem solving. Additional training modules are available through the USDOL/WSI Integrated Adjustment Project.

## **Obtain official endorsement**

Endorsement by village or city and county governments provides legitimacy for the project. Action committee representatives will need to explain the project to local governments and request statements of endorsement from them. In so doing the representatives will want to emphasize the objective, fact finding nature of the project and that their purpose is to learn what is best for the community not to promote tourism development.

Representatives should also indicate their intent to keep local governments informed of all their findings and to request participation of local elected and appointed officials throughout the process.

## Step 2: Current visitor and economic profiles

*How big a role does tourism currently play in your local economy? What is the starting point for your tourism economic development strategy?*

*How does tourism compare with other parts of your local economy in terms of jobs, income, businesses, public revenues, etc.?*

*Who is already coming to visit your community and why?*

*How many people currently visit your community and its attractions each year?*

*Who are the potential "customers" for your tourism products?*

### Purpose

The purpose of this two-part step is to develop a description of the amount and current types of tourism in the local area and a sense of tourism's current place within the local economy. Profiles provide baseline information that will help you make decisions throughout the Community Tourism Assessment process. This information can assist you in setting goals for tourism as one or perhaps several diverse strategies within your community's overall economic development program. It is essential to understanding visitor markets and characteristics, visitation levels, and infrastructure requirements and to assessing economic impacts of current and proposed projects. It can be used later to suggest potential markets and projects that are in demand and to provide background data for the project development and marketing steps. Furthermore, techniques you develop for estimating current visitation can also be used to monitor changes in the level of visitation and types of visitors over time.

By the end of this step, the action committee will have:

- created a picture of what types of people come to visit the community, for how long, to do what, and spending how much by analyzing visitor data on:
  - a. age
  - b. income
  - c. reasons for travel
  - d. places of origin
  - e. mode of travel
  - f. things they like to do
  - g. expenditures
- gathered information on what portion of the local economy (jobs, personal income, export sales) is attributed to the tourism industry in comparison to other major sectors like agriculture, government and manufacturing.
- accumulated vital data to use in the Economic Impact Assessment and Marketing phases of the tourism development process.

## Summary of steps

Read through the entire chapter to familiarize yourselves with the concepts presented and the type of information recommended for you to find and analyze.

Spend some time brainstorming how you think the concepts play out in your community.

Contact your local Industrial Adjustment Specialist for references on where to go to find information, or people who can generate it with you, to analyze both the Current Visitor and Economic Profiles.

## Step 3 Resident attitude survey

*How do local people feel about tourism growth?*

*Are there certain groups within the community that are less supportive?*

*What specific issues or concerns do residents have that must be taken into consideration in the community tourism assessment process?*

## Purpose

This snapshot of community residents' attitudes is key to determining local receptivity to tourism development and promotion. It is the baseline from which to build a broad network of support for and participation in the tourism assessment, planning, and implementation process. It will provide you with information to help direct any tourism development into projects that are acceptable to residents and identify the role that residents see for tourism in the community.

## Objectives

After conducting the resident attitude assessment survey, your action committee will have:

- determined the level of community support or lack of support for tourism development.
- identified concerns of residents about tourists and tourism development.
- determined whether residents perceive that they benefit personally from tourism.
- identified specific places or events that local residents do not want promoted to tourists.
- identified residents' perceptions of the best opportunities for future economic development.
- identified residents' perceptions of the extent tourism should contribute to the diversity of the local economy.
- compared attitudes of residents based on length of residence, occupation of principal wage earner, and socio-demographic characteristics.

## Getting organized

### 1. Determine who will conduct the survey and analysis: local volunteers or hired professionals or a combination of the two

Outside technical assistance may be available through regional or provincial agencies, like a Division of Tourism within Ministries of Commerce and Economic Development, or through institutions of higher education. Private consultants offer this survey service for a fee. Public agencies may also charge for their services.

*Why consider hiring outside assistance?*

- Reduced time commitment on part of volunteers, who already are quite busy.
- Limited local expertise/experience in designing, conducting, and analyzing surveys.
- Sometimes it is felt that if local people conduct the survey, the results will be less objective or less valid because personal interests may be infused into the results. If you anticipate some groups within your local population might voice such skepticism you would be wise to invest in outside technical assistance to help legitimize the process. Outside assistance would add validity to the survey process.
- Areas where the community might need outside assistance or have to have local expertise
- Choosing questions and wording those questions in an unbiased manner.
- Printing of materials used in the attitude assessment.
- Analysis and reporting of the data if it is done using a computer program.

### 2. Establish a survey task force to oversee the survey process or assist the people from outside the community that are brought in to work on the attitude assessment.

The survey task force will need a chairperson who has good organizational skills. The members of this subcommittee will perform various tasks depending on the level of involvement of the community and the level of outside assistance. The time line for completing the attitude assessment is short and it is very important that the deadlines be met. The attitude assessment is designed to be completed in a two month time frame. This begins with the meeting to identify the relevant questions and ends with the reporting of the results to the committee and the community.

## Step 4: Visioning and goal setting

*How do you see your community after tourism development? What do you want to see happen?*

*What is an acceptable level of change in your community?*

*How much of what type of tourism development fits with your image of your community's future?*

## Purpose

Through visioning you will lay out an image of what you would like your community to look like in the future. This image will help guide you in selecting tourism projects that will lead to the desired future rather than those that are likely to lead away from it.

Goal setting will establish a target level for community tourism development. Goals will help you know if your efforts are actually succeeding in achieving your vision.

## Objectives

At the end of this section, the task force will have:

- developed a vision statement.
- articulated and agreed upon the overall goals for the program.
- expressed strong commitment to work to achieve their vision.

## Introduction

Visioning and goal setting are extremely important steps in the community assessment and development process. In the visioning step community members attempt to look into the future and imagine what they would like their community to be. Such an effort involves identifying what is really valued or desired and trying to include those elements in a shared image of their community "being as good as it can be." The image can help community leaders decide among alternatives that are likely to lead to the desired future and those that are likely to lead away from it. It helps a community decide how much of any type of development will fit within its vision and determine what levels of change are acceptable. For example, the decision that preserving their small town atmosphere was most important to them led Townsend, Montana residents to scale back their tourism promotion plans.

Precisely defining goals means deciding what the community really wants out of tourism. For example:

- How many jobs, for whom, at what pay scales, for what seasons?
- What levels of income increase for community members?

Without set goals the community will not be able to monitor if its efforts are actually succeeding or not. Nor will it know when to stop further efforts. And, without clear goals it is difficult to select between alternative development projects.

Once goals have been agreed upon the community can develop the plans necessary to achieve them. Community members can decide what needs to be done to accomplish each goal, develop timelines and assign responsibilities to ensure the goals are met.

## Getting organized

Since a vision is only as strong as those who share it, the action committee will want the broadest possible community participation at the visioning session. A concerted effort will be needed to get diverse representatives from throughout the community to turn out for the visioning session.

Representatives from the following categories should be personally invited and encouraged to participate. (Also refer to the lists on Form ~ 1-1 and Form # 9B-3 for more groups to consider.)

- Historians
- Ministers
- Planner
- Local government
- Health field
- Agriculture
- Environmental Groups
- Newspaper/media
- Educators
- Native groups
- Elderly/Youth
- Industries
- Social Services
- Male/Female

Some communities have combined the visioning process with a local celebration, barbecue, or other social event to encourage attendance. Others have arranged car pools to help people attend.

## **Step 5: Tourism marketing basics**

*How does a community effectively attract tourists and at the same time benefit from tourism?*

*What is the difference between supply and demand driven marketing?*

*Why is it important to consider tourism from the demand perspective?*

*What are five basic questions to consider when undertaking tourism marketing?*

### **Purpose**

Studying key marketing basics will help your community action committee to view tourism development from the tourists' perspective and consequently to more effectively market the area to tourists while enhancing the community's well-being.

### **Objectives**

By the end of this step, the community action committee will be able to:

- preliminarily assess tourism development projects from a demand-driven marketing perspective.
- determine if potential development projects will bring value to both buyers and sellers.

## How to conduct this step

This step is a self-study type of step. It does not require your action committee to go out and gather any information or to make any decisions

You will need to:

- review the material contained in this section of the handbook.
- complete an activity to help make the ideas more concrete for your community.

You can simply study through the information on your own. However, you may want to invite a College of Business marketing professor, an Extension Business Specialist, or a professional from a marketing service, the state tourism office, Small Business Development Center, or a tourism attraction to come talk with you about the issues contained in this section. Their personal experiences and examples can help you better understand the concepts and how they relate to your community's tourism development process.

### Group activity

**Time required:** 45 minutes

**Materials needed:** Large pad, easel, index cards and marker pens for each group.

#### Instructions:

1. Divide the group into several small groups. Ideally, you want to have at least 4 people in each break-out group. Each group will need a facilitator. Groups can either come up with responses together or fill out individual cards and then post them on one big sheet.

2. Ask each group to pretend that they are a particular tourist market group, such as Families with Children, Generation X, Baby Boomers, Seniors, Domestic Business Travelers, Eco or Nature Tourists, Heritage Tourists, or Outdoor Enthusiasts. These traveler types are described in Attachment 5-A. Your community may have an interest in a particular market that is not depicted in the attachment. If you have some information about who comprises that market, you could also include them in this activity.

Give the groups 5 minutes to read through the profile of their tourist market group, discuss it, and make their own observations about how they see themselves as members of this group. Then, have each group spend 10 minutes brainstorming in response to the following questions:

- What would you, as a visitor from this group, be most interested in seeing or doing here in this community? Are there any existing attractions or activities that especially appeal to you as compared to others in the area?
- What kinds of goods and services do you require during your stay in this community? What kind of special facilities, public or private, might you require? Do they exist in this area?

Write group ideas on the flipchart.

3. After responding to those questions in the role of visitor, return to your role of community member. Take another 5 minutes to consider any issues or concerns related to attracting the particular tourist group to your area. Record them on a separate flipchart page.

4. Next, give each small group 3-5 minutes to explain to the large group who they are, what they would like to do while visiting this area, what they need, and any community concerns about attracting these tourists to the area.

5. Finally, a facilitator can go through the material presented and ask participants to identify whether there are certain groups that might be more attracted to the community than others. The facilitator might also highlight common needs and interests across groups and point out needs and interests that make each group unique.

## **Step 6: Attraction and facility inventory**

*What does your community have to offer tourists?*

*What attractions or facilities have good potential to meet market demand?*

*Is your community infrastructure ready to satisfy increased use?*

### **Purpose**

Once you have an idea of your potential market, you need to know what product you have to offer to meet demand before you can start building an industry around it. This step will help you to identify what your current supply of tourism attractions is and what potential others might be. This step also will help you know how ready your community is to take on a new or increased tourism industry, which requires certain supporting facilities and public services.

### **Objectives**

At the end of this section, the community action committee will have:

- collected an extensive listing of the diverse tourism attractions that currently exist in the community/area and ones with potential of being developed for different markets.
- assessed the capacity of your community's supporting infrastructure including water, sewer, safety, health and transportation systems.

### **Getting organized**

Put together an Inventory task force to complete this step. These people will be the main group to brainstorm all the things that should be considered as part of your community's existing and potential tourism supply. Be sure that members of the task force have a deep knowledge of the community and surrounding area and personal knowledge of the area's attractions from having personally used them. This group should include well traveled people who can realistically compare your area's attractions to those in other parts of the country and world.

You may choose to split the task force into subgroups to take responsibility for various parts of the Inventory. For example, different groups could complete the attractions, lodging, food establishments, and public services forms.

## Summary of steps

Step	Description	Form
Step 1	Convene meeting to complete attractions, accessibility and public service inventories	6-1, 6-2 6-3
Step 2	Survey local lodging and food service establishments	6-4a, 6-4b
Step 3	Summarize Attractions and Facility Inventory	6-5

## Introduction

Before we move onto how to collect the information needed to answer the questions listed above let's talk briefly about what we mean by tourism Attractions and Facilities.

**Attractions** include natural and man-made features that interest people to come visit your community. The Tourism Attractions Inventory form included in this manual breaks attractions down into the categories of nature based, recreation, culture and heritage, and special events to help you tally your existing and potential supply.

Read through the lists to familiarize yourself with the vast variety of things that can be considered as part of your community's inventory (Form #6-1).

**Facilities** means the roads, airports, railways, parking areas, water and power services, police, and hospitals that serve visitors as well as community members. These public facilities and services are necessary to get tourists to your community conveniently and to make their stay comfortable and secure. Another part of facilities is the lodging, restaurants, service stations, and other retail businesses that are needed to satisfy tourists' basic needs and consumer wishes.

**Note:** Be aware that visitors' needs are not exactly the same that residents have. Be sure your local economy remains diverse enough to make residents' stay there convenient and comfortable, too.

## Step 7: Potential project identification

*What projects to pursue first?*

*What projects will be of value to your potential visitors?*

*What projects will be of value to your community?*

*What projects can help your community~ tourism industry have a competitive advantage?*

## Purpose

This section will lead you through a structured, criteria-based process to help you objectively choose a few projects with the most potential for success. By selecting projects that meet the criteria posed, you will increase your chances of tourism being an effective strategy for achieving your broad community economic development goals.

Your inventory, combined with the ideas and imagination of action committee members, probably resulted in a lengthy list of possible tourism development projects. Realistically, you can't develop everything at once, so you must set some priorities. This step in a sense makes the first cut on your list of projects. You will still need to complete the impact analysis on each priority project to make the final decision on whether to actually pursue a given project or not. You will complete that analysis in Step 9 of this chapter.

## Objectives

At the end of this section, the action committee will have:

- generated a prioritized list of potential short-term and long-term tourism projects. These will be the committee's development priorities.

To generate that list, you will:

- brainstorm tourism project and product ideas.
- predict each project's potential value to your typical visitors.
- evaluate the likelihood of potential projects benefiting the overall community.
- compare potential projects to those of your competitors.

## Getting organized

The full action committee should complete this step together so that you can come to a consensus on which projects to pursue.

One option is to hold a committee meeting during which you will complete this entire step at once. You may wish to seek out an Industrial Adjustment Specialist or other experienced person in your area to act as facilitator.

## Summary of Steps

Step	Description	Form #
Step 1	Assemble an exhaustive list of potential tourism projects	
Step 2	Refine the project list	7-1a, 71b
Step 3	Prioritize the project list	7-2

Another option is to start the brainstorming activity (Step 1) in a meeting earlier in the assessment process, as shown in Figures X-1, X-2, and Attachments X-A. People can add to the brainstorming lists at each committee meeting. This strategy can help people feel like they are moving forward on project ideas as they work through the sometimes tedious and time-consuming planning tasks. If you use this strategy, once you complete the Inventory process, you can move right onto refining and prioritizing your project list (Step 2 and 3).

## **Step 8: Initial project scoping**

*What will the project generally look like?*

*What will the project basically cost to construct, operate, and maintain?*

*Does the project fit within existing local and state plans and regulations?*

*What public facilities and services will need to be enhanced to support the product construction and operation?*

*What revenues will the project generate?*

### **Purpose**

Once your top priority short- and long-term potential projects have been selected, they need to be scoped out so their potential acceptability to the community can be predicted. The scoping process describes a proposed project as it would be in completed form giving sufficient detail for you to then assess its probable impacts. Scoping requires determining the size of the project, its location, construction, operation and maintenance costs, employee numbers and origin (local or newcomers), and any required revisions to existing plans or infrastructure and the related costs. It also involves projecting the number of visitors the project will attract and the related revenues generated.

Scoping provides the action committee and community-at-large with a draft project to review. The draft may later be modified, accepted, or rejected.

**A word of caution:** You need to be careful not to take scoping so far along that you become so committed to the project that you are determined to go ahead with it no matter what the impact assessments results indicate to be the wisest choice. This is a real possibility. Groups that have invested a lot of time and effort designing a project tend to develop a natural interest in seeing the project implemented, making it hard to remain objective.

**A note on precision.** Revenues and costs can be measured with varying degrees of precision depending upon the data available to you and the time frame you wish to dedicate to collecting additional information. We do not advocate that you expend inordinate amounts of time to gather extremely accurate data at this point. You are looking for any glaring red flags of negative impacts or costs that clearly say to you Watch out or Don't proceed with a specific project. And, you are looking for projects that clearly shine forth as more likely than others to provide cash and non-monetary benefits to the community, indicating a green light. Don't be put off by

ballpark figures. Combined with group judgement, they are sufficient for your task force to make a valid Go/No Go decision.

## Objectives

At the end of this step, the action committee will have:

- identified in a broad brush way what is intended, how large, at what cost, who is involved, completion date for each project on the priority list.
- gathered together main information needed to complete the Economic Benefit-Cost Analysis in the next section.

## Getting organized

Task forces should be assembled to scope out each proposed project on the priority short- and long-term list from the previous step. The task forces will be responsible for collecting the necessary information and presenting the results to the action committee. You may need to recruit additional local or outside experts to serve on these working groups. Useful experts might include:

- --operators of similar projects
- --architects
- --engineers
- --traffic coordinators
- --contractors
- --landscape architects
- --planners
- --builders

## Summary of steps

<b>Step</b>	<b>Description</b>	<b>Form #</b>
Step I	Scope out proposed projects 1a. Draft physical descriptions 1b. Describe employment needs 1c. Estimate construction, operation & maintenance costs	8-1
Step 2	Estimate carrying capacity 2a. Identify sources of information 2b. Make inquiries 2c. Summarize and evaluate information	8-2, 8-3
Step 3	Calculate total predicted costs	8-1

Step 4	Figure annual revenues	8-4
	4a. Estimate number of visitors	
	4b. Estimate visitor expenditures	
	4c. Forecast tax revenues	

## **Step 9: Impact analysis--economic, social, environmental**

*Who/what will be positively impacted by the proposed projects?*

*Who/what will be adversely impacted by the proposed projects?*

*What are the trade-offs?*

### **Introduction**

With the scoping process completed, impact analysis will be conducted to predict the probable impacts of each selected project. This analysis is the heart of the assessment process prescribed in this manual. It will be time-consuming, but don't be tempted to take short-cuts. The results you obtain will be the most important information you need to answer the big questions of, What are we getting into when we pursue a tourism economic development strategy for our community? and Is it worth it?

### **Purpose**

Tourism is being promoted as an economic development strategy for rural communities based upon arguments of its many direct and indirect benefits. Promoters do not, however, always acknowledge the costs that communities will incur when they bring tourism into their area. In reality, there are prices to pay for a tourism industry. These may be a challenge to specify. This manual strives to get communities to look at both the benefit and cost sides of the equation to better ensure that any tourism development that occurs does so with minimal unexpected negative impacts and with rewards for the community in a sustainable, equitable manner. Several examples of potential benefits and costs are listed below.

The three-part impact analysis your task force will complete in this section will suggest who or what may be positively impacted, and who or what may be adversely impacted by the proposed tourism development project(s). You will conduct three different types of impact analyses, social, economic, and environmental, to determine which, if any, of your priority projects should proceed. Steps to conduct each of these are explained in How To Conduct This 3-Part Step.

### **Objectives**

By the end of this impact analysis, the action committee will have determined the following for each of the projects scoped out in the previous section:

- potential benefits in terms of social, economic, and environmental factors,

- potential social, economic, and environmental costs so they can be planned for and perhaps mitigated,
- benefit/cost comparisons,

and have:

- decided which project(s) are most desirable to pursue in terms of a broad base of benefits and cost considerations to the community's quality of life, economy, and environment.

### Some potential benefits and costs to the community from tourism

<b>Benefits</b>	<b>Costs</b>
<p><i>Social</i></p> <ul style="list-style-type: none"> <li>☐ Brings in outside dollars to support community facilities and services that otherwise might not be developed.</li> <li>☐ Encourages civic involvement and pride.</li> <li>☐ Provides cultural exchange between hosts and guests.</li> <li>☐ Facilities development for tourism can also benefit residents.</li> </ul> <p><i>Environmental</i></p> <ul style="list-style-type: none"> <li>☐ Fosters conservation and preservation of natural cultural and historical resources.</li> <li>☐ Encourages community beautification and revitalization.</li> <li>☐ Is a clean industry.</li> </ul> <p><i>Economic</i></p> <ul style="list-style-type: none"> <li>☐ Helps diversify and stabilize the local economy.</li> <li>☐ Contributes to state and local tax base.</li> <li>☐ Creates local jobs and business opportunities.</li> <li>☐ Brings new money into the community.</li> <li>☐ Helps attract additional businesses and services to support the tourist industry.</li> </ul>	<p><i>Social</i></p> <ul style="list-style-type: none"> <li>☐ May attract visitors whose lifestyles and ideas conflict with the communities.</li> <li>☐ May create crowding and congestion.</li> <li>☐ May compete with residents for available services, facilities, and existing recreation opportunities.</li> <li>☐ May result in an increase in crime.</li> </ul> <p><i>Environmental</i></p> <ul style="list-style-type: none"> <li>☐ May degrade the quality of sensitive natural or historical sites.</li> <li>☐ May increase litter, noise, and pollution.</li> </ul> <p><i>Economic</i></p> <ul style="list-style-type: none"> <li>☐ Places demands on public services and facilities (infrastructure) beyond the revenues to support expanded services.</li> <li>☐ May inflate property values and prices of goods and services. If outside interests own the tourism development, most of the economic benefits will leave the community.</li> </ul>

### Getting organized

You will need to put together separate task forces to collect and analyze the necessary information for each of the three impact assessments. It would be wise to have the scoping task force for each project act as the economic impact assessment task force because they have already collected most of the data necessary to complete that step. Think about any specific experts that you will want to invite to participate, like wastewater system and traffic engineers to give input on infrastructure capacity. Each task force can invite these types of experts to join them once the members become more familiar with the specific information they are called upon to collect and analyze.

Each task force should identify a Record Keeper to be responsible for keeping copies of all their information and decision-making notes for future reference.

## Chapter 10

# Strengthen small firms through interfirm cooperation and technical services

Among the most exciting and successful entrepreneurial initiatives that have been developed and used in EU countries and North America to facilitate community revitalization and local economic development are those which promote interfirm cooperation and provide technical services.

Because of the growing recognition that small firms play an important role in job creation and economic development, a number of areas have been identified as having potentially significant roles in helping them to become more efficient and competitive. Two of these—interfirm cooperation through collaborative networks, and the development of service systems—have attracted considerable interest internationally.<sup>1</sup>

### Interfirm cooperation and collaborative networks

Interfirm cooperation and collaborative networks are groups of small companies in a community or region that cooperate when it is to their competitive advantage. These business networks operate from the bottom up in ways designed to maximize their joint competitive advantage in the marketplace. They can respond quickly to new market demands and product development.

Networks can consist of interfirm/multi-firm initiatives or sector specific initiatives. In short, networks are a new way for businesses to do business. They concentrate not on identifying needed services, but on seeking opportunities that are too large, too technically demanding, or too distant for their participants to undertake alone. The Aspen Group's study of the potential of manufacturing networks in America defines networks as "*a form of associative behavior among firms that helps expand their markets, increase their value-added or productivity, stimulate learning and improve their long-term market position.*"<sup>2</sup>

In order to compete effectively in competitive economies, small firms must have the ability to develop niche-marketing of customized products produced with the latest technology and highest skills. They can do this most easily by associating with other firms to form collective learning systems and to reduce the risks associated with specialization. In addition to retaining

<sup>1</sup>Frank Pyke, *Strengthening small firms through co-operation and technical services: The roles of the Steinbeis Foundation and the Landesgewerbeamt in Baden-Wurtemberg*. Background Paper No. 2, International Conference on Endogenous Regional Development in a Global Economy: The Roles of Technical Service Institutes and Co-operation Networks in Small Firm Economies, Valencia, 17–19 November 1992, pp. 1–3.

<sup>2</sup>Brian Bosworth and Stuart Rosenfeld, *Significant Others: Exploring the Potential of Manufacturing Networks*, Chapel Hill, Regional Technology Strategies, Inc., Forthcoming 1993, p. 18.

their independence, the advantages of collaborative networks to small firms include economies of scale; reservoirs of expertise, increased flexibility, lowered risk, and a learning system.

Cooperation between small firms can be justified on a number of grounds. The first reason is the achievement of economies of scale—sharing marketing, research and development, or training activities. A second reason is that “sharing information and ideas, and the combination of complementary skills and technologies, can lead to new innovative products and production processes.” The sharing of information can also be “an essential mechanism for keeping small firms up to date and competitive.”

Interfirm cooperation can result in a more rational and efficient distribution of activities, such as firms sharing a common facility and jointly purchasing and making collective use of expensive equipment that none could afford to purchase individually. Also, a group of firms working together can offer a broader scope of capabilities—a coordinated range of products or services. (Customers benefit from dealing with a single source.)

Cooperation among small firms can increase the size of their productive capacity and make it possible for them to bid on larger projects. Finally, “inter-firm cooperation facilitates political cohesion amongst small firms, allowing them to press for their specific interests, whether at regional or national level.”<sup>3</sup>

## Technical service systems

Small firms, particularly those engaged in manufacturing, need strong service systems for the following reasons:

- In order to compete with large firms. Small firms, because of their size, need a range of services and inputs which they cannot obtain without considerable cost or undue burden.
- “Small firms can be helped by the institutionalization of real or technical service centers or agencies that can engage on behalf of the small firm community in research and development, technology transfer, organizational upgrading and information services, each centre being both industry-responsive and leading and coordinating the upgrading process.”<sup>4</sup>
- Effective management and distribution of information “has become the crucial factor of competitive advantage.” It is argued that “service systems act as conduits for information and as a means of acting on that information.” They are an essential ingredient of development strategies designed to emphasize innovation and the introduction of new ideas.<sup>5</sup>

A number of examples demonstrate how the advantages of collaborative networking and technical service systems can be obtained. These examples also illustrate the linkage between interfirm cooperation and technical services.

The two oldest and best known examples are located in Italy and Germany, but newer systems have been developed in Denmark, Spain, the United States, and elsewhere.<sup>6</sup>

<sup>3</sup>Frank Pyke, *Small Firms, technical services and inter-firm cooperation*, pp. 5–6.

<sup>4</sup>Pyke, *Strengthening Small Firms*, p. 2.

<sup>5</sup>*Ibid.*

<sup>6</sup>Bosworth and Rosenfeld, *Significant Others*, pp. 14–15.

## Examples of interfirm cooperative networks and service centers

### Italy: Emilia-Romagna

The concept of interfirm cooperation and flexible and collaborative networks was first identified and incorporated as a public-private industrial strategy in the Emilia-Romagna region of north central Italy, population four million. (Other regions and countries are attempting to replicate this concept.)<sup>7</sup> An activist policy on the part of the regional government facilitated the collaborative networking which helped to transform the economy of this region in Italy into one of the most prosperous in Europe.

Today, 64 percent of the manufacturing workers in Emilia-Romagna are employed in businesses with fewer than 50 employees, and 74 percent are in firms with fewer than 100. The average number of employees per unit of employment is six, and only 7 percent of the manufacturing workers are employed in firms with over 500 employees. Yet, the region is among the top ten richest regions in Europe.<sup>8</sup>

The regional government provided an institutional structure of service agencies, beginning with the creation of a regional development agency in 1974, to help small firms modernize and upgrade. The creation of twelve publicly subsidized hub centers encouraged small artisan firms to enter into a unique type of partial temporary mergers and other alliances for competitive purposes.

In the 1980s, sector specific “hubs” or “real service centers” were created to help the most important industries in the region. These hubs provide a variety of services, including:

- industrial research;
- dissemination of information on markets, fashion trends, standards, and regulations;
- services for the upgrading and transfer of technology;
- training; and
- testing and certification.

Firms are encouraged to join the centers and participate in their operations. Though they pay for the services they receive from the hub centers, they also define the centers’ functions. Today, membership fees from firms, trade associations, chambers of commerce, and unions provide the bulk of the support for the networking centers. The public treasury provides the remainder, about 30 percent.<sup>9</sup>

Although this Italian networking model is attractive to outsiders, some observers have questioned the replicability of this model because of the region’s unique economic, cultural and historic conditions. Representatives from the region acknowledge the importance of their shared values and the face-to-face contact between firm owners and workers. They consider such

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<sup>7</sup>Stuart Rosenfeld, *Smart Firms in Small Towns*, Washington, D.C., The Aspen Institute, 1992, p. 73.

<sup>8</sup>Pyke, *Small Firms*, p. 7.

<sup>9</sup>*Ibid.*, p. 10.

personal interaction essential to achieve the information flow necessary for solving common problems and quickly converting innovative ideas into products.<sup>10</sup>

## **Germany: Baden-Wurtemberg.**

Baden-Wurtemberg, a regional state in south-western Germany, population 9.3 million, illustrates the development and use of a highly developed service system for small enterprises. The Steinbeis Foundation, founded by the State government in 1971, operates as a private non-profit enterprise. Its objectives are to upgrade industry and encourage innovation through a range of technical services, particularly technology and management consultancy services, and applied research and development on a company-by-company basis. The Foundation is supported by government-sponsored efforts to strengthen interfirm cooperation.

A staff of 2,500 people, headquartered in Stuttgart, co-ordinate the work of the 129 Technology Transfer Centers. The centers offer a wide range of specialized services or consulting opportunities to individual clients. The main clients are small and medium-sized enterprises. The system emphasizes an interdisciplinary approach to dealing with business problems.

The Baden-Wurtemberg regional state is dominated by engineering, machine tools and, to some extent, textiles. It has a combination of large firms and a large concentration of small and medium-sized enterprises (SMEs). The large numbers of handicrafts firms, in particular, are well-known for their flexibility and productivity. The SMEs produce half of the state's product and account for 95 percent of all commercial enterprises, every second job and most trainee positions.<sup>11</sup>

The Steinbeis Centers are located in higher educational institutions and are run by their professors. (All Centre professors are required to have three to five years of experience in industry before they can become professors.) The higher education system serves as intermediary institutions connecting researchers and scholars at Baden-Wurtemberg's fachhochschulen (polytechnics) and other research and development organizations with the industrial and commercial needs of the small firms. Students, in the form of graduates, provide the Centers and small firms in the area with a constant stream of skilled labor and are involved in many of the research projects.

The Centers receive some subsidy from the state government to obtain premises and equipment, but they are expected to earn over 95 percent of their income from their services. The Centers pay a percentage of their income to the Foundation to cover central administration costs. They rent their facilities and equipment from the host educational institutions and pay the professors a salary for the time they spend on projects and consulting.<sup>12</sup>

The apparent success of the Steinbeis Foundation's technology transfer system has attracted considerable attention and admiration and much interest in replicating it in other settings. The strongest indicator of its success is the demand for its services and the small subsidy it receives from the government. According to Frank Pyke, who studied this technical service centre system for the ILO, "in the context of Baden-Wurtemberg's highly sophisticated education and service infrastructure, the Steinbeis Foundation does appear to be achieving some

<sup>10</sup>Bosworth and Rosenfeld, *Significant Others*, p. 25.

<sup>11</sup>Pyke, *Small Firms*, pp. 46–47.

<sup>12</sup>*Ibid.*, pp. 6–20.

success in bridging the gap between the world of higher education and small and medium-scale industry.”<sup>13</sup>

Chambers of Commerce and Industry, in which membership is compulsory, encourage networking among small firms. Advice on new technology is offered through innovation consulting bureaus, market research, export assistance, new kinds of work practices, and educational and training courses to small and medium-sized firms. Voluntary self-help organizations such as employers associations, trade and industry associations and the like provide additional networking services.<sup>14</sup>

In addition, the Landesgewerbeamt (Office for the Promotion of Trade and Industry), a government institution, actively promotes small and medium-sized firm group activities. It provides subsidies (up to 50 percent of the cost) to organize meetings and also provides a brokerage service to advise firms on the benefits of cooperation and how to organize themselves.<sup>15</sup>

### **Lessons from Baden-Wurttemberg experiences<sup>16</sup>**

The highly developed network and service centre system operating in Baden-Wurttemberg offers a number of lessons:

- Unlike other German states that have service centers but no linking network between different polytechnics, the Steinbeis Foundation networking approach greatly increases the range of services that can be offered. It also opens an opportunity for a concerted holistic approach to problem solving by different specialists.
- The decentralized industry-driven approach and tying the income of individual centers to their services to firms in the area contribute to greater client use and willingness to pay.
- The initiative for and success of the centers, such as the Gosheim Steinbeis Centre, comes from the small firms who influence the direction the centers take and from a centre-firm association that helps the centers carry out their leadership and organizing functions.
- Small firms, particularly if they are not direct competitors, will collaborate; but some kind of brokerage intervention is necessary to organize, motivate, and inform them of possible advantages and strategies.
- Strong state support and encouragement that upgrades and strengthens the small firm sector is important.
- Strong, well-developed educational and scientific research complex and training systems are important to successful upgrading and networking efforts.
- Market demand for the main industrial products is also important.

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<sup>13</sup>Pyke, *Small Firms*, p. 55.

<sup>14</sup>Pyke, *Strengthening Small Firms*, op cit., pp. 3–5.

<sup>15</sup>*Ibid.*, p.22.

<sup>16</sup>Pyke, *Strengthening small firms*, op cit., pp. 26–29.

## Denmark

The largest and most widely recognized application of the Emilia-Romagna model began in Denmark in 1988.. The Danish leaders who studied that model were impressed by the way cooperation and a strong collaborative network infrastructure brings about long-term success.

Denmark, population of about five million people, is roughly comparable in size to the Emilia-Romagna and Baden-Wurttemberg regions. Its economy depends largely on small and medium-sized enterprises. Ninety-nine percent of the Danish firms have fewer than 100 employees, and most people work in small enterprises—over 70 percent work in firms with fewer than 200 employees and 60 percent work in firms with fewer than 100 employees.

Denmark's small population and the recent globalization of industry have forced the Danish firms to seek external markets for their products and to become more competitive.<sup>17</sup> As part of its strategy to adapt to the new global economy, the Danish Ministry of Trade implemented the Danish Cooperative Network Program, initially conceived by the Danish Technological Institute, to promote complementary production among firms rather than trying to create Italian-style industrial districts. The Ministry of Trade authorized the expenditure of US\$25 million to induce small and medium-sized enterprises to work with one another to strengthen competitiveness, encourage interfirm cooperation and promote the development of small firms.

The Danes have created a comprehensive, accessible, well-organized infrastructure that supports its SME modernization and networking initiatives.<sup>18</sup> The Danish Technological Institute provides support to the networking effort, and the Technology Information Centers mobilize extension agents to provide information in every county. In addition, there are decentralized applied research centers, and technology application centers are located in seven technical colleges.

The Danish Technological Institute, a private foundation founded in 1906, has about 1250 employees primarily located in Copenhagen and Aarhus. The Institute operates on a commercial basis and is the leading provider of technical and technology transfer services. It conducts applied research, technological problem solving, quality, materials and environmental testing; management and organizational consultancy; and training. Other organizations also provide a variety of services.<sup>19</sup>

The Danish Cooperative Network Program includes educating the public, selecting and training “network brokers,” and offering three stages of incentives for collaboration. The objectives are “to encourage small firms to join together in cooperative networks in order to achieve economic goals that individually none of them could manage alone; implicitly, the overall aim is to increase the efficiency, standards and international competitiveness of Danish small firm industry.”<sup>20</sup> Approximately 1,000 firms, organized into about 200 networks (with an average size of about 5 firms per network), are officially in the program; another 500 firms have formed 100 networks without any government involvement.<sup>21</sup>

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<sup>17</sup>*Ibid.*, p. 78.

<sup>18</sup>Rosenfeld, *Small Firms in Small Towns*, p. 72.

<sup>19</sup>*Ibid.*, p. 80.

<sup>20</sup>*Ibid.*, p. 84.

<sup>21</sup>*Ibid.*

Under the Danish system, interfirm cooperation takes a number of forms that can be divided into two categories:<sup>22</sup>

- *The sharing of resources*—sharing labor, technology, buildings, training, etc., to reap economies of scale.
- *The development and utilization of mutual complementarity*— *working together to exploit the complementarity of markets, products or resources, including ideas, both within the same industrial sector and across sectors.*

The National Agency for Industry and Trade, administered by a staff of three and advised by a consultative group of 12 drawn from a cross section of Danish economic life (employers, trade unions, etc.), established and promoted the Danish Network Program through a three-phase process: (1) feasibility study, (2) in-depth planning, and (3) the start-up and operation of the network. As firms passed through each of these three phases, they could receive subsidies. Upon completion of phase three, all subsidies ceased and the program ended.<sup>23</sup>

### Lessons from Denmark

The Danish experience provides a number of important lessons about inter-firm cooperation among SMEs:<sup>24 25</sup>

- *Importance of network brokers.* The Danish experience indicates that rather than relying on the spontaneous creation of networks based on mutual self-interest, brokers, leaders from businesses, associations or agencies, play a critical role in successful network formation. Brokers, as catalysts, advise on the advantages of cooperation, identify opportunities, initiate discussions, and link firms pursuing new opportunities together. This finding is similar to the Baden-Wurtemberg experience and elsewhere.

We believe that small firms and networks compete more successfully, but Danish firms do not do it spontaneously—partly because they are not aware of the possibility; partly because they have very strong emotional and other prejudices against any type of cooperation...They are just like owners of SMEs everywhere else—fiercely independent and competitive, and by definition opposed to cooperation. [From Interview carried out by DTI]

- *Financial subsidies.* Financial subsidies are needed to encourage small firms to cooperate. Subsidies, given with an absolute minimum of written administration and time-wasting formalities, help them to overcome their initial skepticism by underwriting part of any perceived risk.

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<sup>22</sup>Pyke, *Small Firms*, pp. 86–87.

<sup>23</sup>*Ibid*, p. 89.

<sup>24</sup>Niles Hansen, *Endogenous Growth Centers: Small Firms and Flexible Production Systems in rural Denmark*, (1991), as quoted in *Communities in the Lead*, p. 195; and Danish Technological Institute, *Danish Network Program Midterm Report*, 1991, as quoted in *Communities in the Lead*, p. 199.

<sup>25</sup>Pyke, *Small Firms*, pp. 89–95.

- *Competition inhibits cooperation.* Firms are much more willing to join a network or enter into a cooperative alliance with noncompeting firms. Thus, most cooperative networks are of the complementary kind and do not involve true competitors. However, in some instances competing firms are able to cooperate, especially when the firms in the networks agree about areas that they can cooperate on and areas or markets where they can continue to compete.
- *Some industrial sectors are more willing to cooperate than others.* Cooperative networks operate in most Danish industries, but a few industries, such as textiles and clothing, have not overcome their prejudices and skepticism.
- *Geographical distance can pose a problem.* The Danish experience suggests that networks are more successful when firms are geographically close to one another and the workers know each other. Membership in local organizations and communities create social bonds that underpin successful cooperative network. Attempts to link geographically dispersed firms in cooperative networks have not been successful.
- *Local technical support is desirable.* Technical support should be provided at the firm by persons well-acquainted with local production conditions and the needs of the firm.
- *Cooperation must be voluntary.* Cooperation among enterprises should be encouraged, but cannot be enforced by external parties.
- *Service centers are important to network development.* Service centers, including industry associations, technical institutes, incubators and cooperatives, play an instrumental role in supporting network formation. They can serve as organizational and service hubs for similar firms, especially when the networks involve new and very small firms. They are less important to larger and more established firms.

## Spain: Valencia

As part of Spain's political decentralization process, the regional government agency set up the Institute for Small and Medium-Sized Firms (IMPIVA) in Valencia, Spain, in the mid-1980s. The 23,000 square mile Valencia region is located in south-eastern Spain. One-fourth of the population lives in the capital city, the fourth largest in Spain. Valencia's economy is heavily dominated by small firms, similar to Emilia-Romagna in Italy, and Baden-Wurttemberg in Germany. Ninety-six percent of the enterprises have fewer than 50 employees.<sup>26</sup>

The IMPIVA, with a budget of US\$70 million and a staff of 80, has been upgrading and regenerating the small-firm economy and diversifying industry to remove the region's dependence on a limited number of traditional sectors. Drawing on the experiences of Emilia-Romagna, Baden-Wurttemberg and the collaborative networks in Denmark, the IMPIVA is trying to create cooperative networks and support service infrastructures to enable their small firms to compete with other regions and the rest of Europe.

After considering several alternatives, the IMPIVA rejected the option of competing on the basis of cheap labor and focused on raising standards in firms. The centerpieces of the IMPIVA Valencia program are the Technological Institutes or "real service centers." The service centers provide the impetus to develop dynamic small firm sectors in two ways: (1) providing

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<sup>26</sup>*Ibid.*, p. 11.

services that individual small firms, because of their size, cannot provide for themselves; and (2) providing leaders and coordinators to upgrade and innovate whole small-firm sectors.<sup>27</sup>

Central to the IMPIVA system is an “inner network” of four components, connected by a “deliberately created web of interrelationships.”<sup>28</sup> The four components are: (1) the IMPIVA agency located in the centre of Valencia that co-ordinates all networking activities and provides a range of training and information services that are distributed through various institutions; (2) the Business Innovation Centers that help establish new enterprises; (3) a Technological Science Park that aims to establish a growth pole of advanced innovative industries; and (4) a number of Technological Institutes which provide technical or real services.

The IMPIVA aims its decentralization strategy through its inner network of components to encourage a grass-roots or bottom-up approach— “trying to create the conditions whereby through a complex networking process information is diffused, synergy’s are encouraged, and innovation advanced.”<sup>29</sup> The IMPIVA also works through a sphere or network of other institutions, including universities, the chamber of commerce, trade unions, private design agencies, quasi-public training agencies, etc., which are part of the Valencia service system.

During his February 1992 visit to Valencia, Frank Pyke of the ILO International Institute for Labor Studies found that the IMPIVA program was too new to evaluate, although the Technological Institutes “certainly appeared to be expanding—numbers of services demanded, numbers of staff, income from services sold, and the activities undertaken. Moreover, all the managers interviewed felt they had been successful.”<sup>30</sup>

Pyke noted that “there were large areas involving the relationships between the Institutes and the industries they serve, the strategies they should be pursuing, and the services they should offer (and on what basis) that have not been touched upon, and further research would be welcomed.” He raised the following question: What should be “the scope for the agencies developing further, from providing mainly production oriented services to other services— perhaps towards a more proactive role of network coordinators and organizers?” Moreover, he wondered how the Technological Institutes should be fitted into a whole Service System, including the outer network of other institutions, co-coordinated by the IMPIVA.

### **Lessons from Valencia<sup>31</sup>**

Although the IMPIVA is relatively new, and thus difficult to evaluate, Pyke, in a more recent publication, has suggested some lessons to be learned from the Valencia approach to cooperative networking and service centers.

- Centers providing technical services should be very responsive to the stated needs of their small-firm clients.
- Centers should “lead the industry” by anticipating the needs of the small firms, preparing to meet them and perhaps even urging firms to upgrade.

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<sup>27</sup>Frank Pyke, “‘The Last Will Be First’ Small Firms, Service Centers, Networks and Cooperation in the Region of Valencia,” Paper presented to a seminar held in the International Institute for Labor Studies, ILO, Geneva, March 24, 1992.

<sup>28</sup>*Ibid.*, p. 5.

<sup>29</sup>*Ibid.*, p. 7.

<sup>30</sup>*Ibid.*, p. 59.

<sup>31</sup>Pyke, *Small Firms*, pp. 43–44.

- A certain level of permanent public subsidy is required to enable the institutes and service centers to carry out their role as “industry leader” to large numbers of firms. On the other hand, they can sell their services perceived to be of immediate value to individual firms at market prices.
- The development of expertise and effectiveness by focusing on specific industrial sectors is an advantage. This focus also gives each centre a strong identity with entrepreneurs in the industry.
- Sectorally specific institutes function better if they are located close to the industries they serve.
- Being part of a collaborative network of centers and institutes is perceived as an advantage.
- Institute management is critical to success, especially in decentralized systems.
- Technical service centers need highly qualified manpower to be effective.

## United States of America

There has been a recent surge of interest in developing interfirm networks in the United States. In 1992, some 27 networks, clustered in three industries—metalworking, woodworking, and clothing, along with several additional networks in electromechanical, and mixed industries—were operating in the U.S. Most U.S. interfirm networks have multiple objectives, but some were started to provide a specific service—sharing marketing services, technology transfer activities, new product development, purchasing, and quality improvement.

American interfirm networks remain heavily broker dependent—an independent third party is required to mediate network functions and to complete most of the work to conduct the business of the network. At this stage of network development, the brokers are usually local economic development agencies, universities or community colleges, or community development organizations.<sup>32</sup>

U.S. interfirm networks are typically organized as non-profit corporations headed by a board of directors drawn from the member companies. They are financed primarily by company contributions and grant money from economic development agencies, very few are financially self-sufficient. Levels of funding range from \$10,000 to \$100,000 per year.<sup>33</sup>

The following examples illustrate how the interfirm network process is developing in America.

### Florida: The Technology Coast Manufacturing and Engineering Network (TeCMEN)<sup>34</sup>

The TeCMEN network, based in Fort Walton Beach, Florida, is a good example of the type of cooperative interfirm networks being developed in the United States. It was organized in 1990 by the efforts of its broker, the president of the local community college and a member of the local economic development council (EDC). The broker became aware of the Emilia-Romagna model

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<sup>32</sup>Kendra S. Hill, *Flexible Network in Theory and Practice: How and Why to Set up Flexible Networks in British Columbia*. Vancouver, B.C., Canada: BC Trade and Development Corp., November 1992, p. 31–32.

<sup>33</sup>*Ibid.*

<sup>34</sup>*Ibid.*, pp. 45–51.

and thought it might be applicable to local firms. Initial efforts to organize the network failed, but a threat of reductions in defense spending catalyzed the network's formation. Within a very short time, TeCMEN was organized and operating.

TeCMEN is a flexible network of 30 firms engaged in the design and production of electromechanical products. Twenty-five of the firms are manufacturers, and five are design engineers. The member companies are relatively small; the largest employs 300 people, and the smallest employ 16. Average firm size is about 60 persons.

The network has no formal legal structure, but is administered by an advisory board of 15 people, including the CEOs of 12 member companies, a representative of the University of Florida, a representative of the EDC, and the broker who represents the community college. Network activities focus on improving the individual businesses of member firms. The goal is to identify and provide opportunities to improve the bottom line of member firms by working directly with other local firms on projects of mutual interest

TeCMEN is a typical network. The independent broker contributes about 10 hours a week to the network. He works to identify public sources of financing for the network and to obtain access to staff to perform network functions. The network hub comprises both the community college and EDC. The staff is drawn from both organizations which are conveniently located in adjacent buildings. The community college staff contributes about 25 hours per week to TeCMEN.

The hub staff provides or administers three main categories of assistance to member firms:

- marketing—press releases, mail-outs, and speeches by the broker and marketing by the sales reps of the member firms; shared services—sharing purchasing and training services; and
- shared business opportunities—starting with a “keep the work home” program which resulted from a survey of member firms’ business activities to identify potential synergies.

The survey disclosed that many firms were purchasing items and services, many of which could be provided by network members, from great distances. This resulted in a system being set up whereby TeCMEN firms provided the broker with the specifications of any jobs that were to go outside the network. The job specifications were then circulated within the network, minus the name of the contracting firm, to give member firms an opportunity to bid on the work. The bids were submitted to the broker who forwarded them to the potential contractor. However, this was not possible until network participants reached a level of trust with each other. Now bid opportunities are sent to all member firms via the computer network, eliminating the broker from the process.

TeCMEN has succeeded in getting firms to jointly bid on and complete shared contracts. The process of finding and dividing up work consists of several steps:

- *Identifying opportunities.* The previously identified marketing techniques are used.
- *Selecting a lead firm.* This is accomplished with the help of the advisory board.
- *Selecting subcontractors.* The lead firm uses the computer network to solicit subcontractors and faxes the specifications.
- *Submitting a bid.* The lead firm puts together a bid package with the administrative assistance of the hub. The hub then forwards the bid to the potential client.

- *Contracting out with the client.* If TeCMEN is awarded the work, the lead firm signs the contract with the client. Subcontractors are responsible to the lead for their portion of the whole.

The \$100,000 required to fund the start-up of the TeCMEN network came from the State of Florida. Those funds are supplemented by using local community college and EDC staff; their job descriptions were changed to accommodate network activities. The original grant funded one additional staff position. The network has received less grant money each year since its inception; it is expected to be self-financing at the end of four years. The return on investment is considered positive; 400 new jobs have been added to the 30 TeCMEN firms since the networks inception.

### **Lessons from TeCMEN**

The broker reports that seven factors have contributed to the network's success:

- *Importance of a threat or crisis to facilitate organization.* It took an external threat to force the firms to organize a network with their competitors in the industry.
- *Need for a disinterested broker.* The network would not have been established without the broker's persuasion. His impartiality helped to generate the trust needed to develop the network. Initially, confidential information was shared only with the firm. As trust developed, firms became able to deal with each other directly.
- *An industry led effort.* Though the idea for starting the network came from the community college and the EDC, the spark to organize it came from the industry. All activities and procedures are designed under the guidance of an industry-dominated advisory board.
- *Early success.* The initial "keep the work home" program provided benefits to the members within two months. This early success ignited interest in the concept and provided momentum that continues to grow.
- *CEO commitment.* CEO-level commitment is indispensable to successful networks. The CEOs attend meetings and personally interact with the broker.
- *No up-front company money.* Business firms are reluctant to invest their own money in a network until they are sure that it will provide returns and be successful.
- *A structure that is not superimposed from outside.* Each network must develop along its own needs. TeCMEN evolved in a way that satisfied the participating firms and did not force trust beyond natural levels. Its structure and range of activities developed and evolved according to the members' needs and interests.

### **Ohio: ACEnet**

ACEnet, a community enterprise and cooperative development organization in Athens, Ohio, used networking ideas from Italy and Denmark to foster local economic and employment development through the creation of flexible manufacturing networks in rural north-east Ohio.

Serving as the network broker, the ACEnet's first project was to organize a number of small firms in a cooperative venture to design and manufacture accessible housing components for the handicapped. To do so, in January 1992 ACEnet set up a for-profit enterprise, "Accessible Designs—Adjustable Systems," to identify the niche markets and co-ordinate product design and development, production, marketing and training functions for the group. It

attracted thirty small woodworking, machining, electronics, marketing, and construction firms to become partners in jointly producing, marketing and installing the new products.

The long-term objective of ACEnet is to convert the network's coordinating enterprise into a cooperative owned by the group and to generate more of these networks among other firms in their area.<sup>35</sup>

### **New Jersey**

In New Jersey, interfirm cooperative networks are being organized in three industries—textiles, electronics and metal working—with the help of the state government and the New Jersey Institute of Technology. The first activity was the creation of a service centre, the Paterson Textile Centre on the Passaic County Community College campus, to provide employee, financial, planning and organizational assistance to textile, printing and dyeing firms in the Paterson area. A second activity is the setting up of Continuous Quality Improvement User Groups to facilitate networking among SMEs in manufacturing in New Jersey.

### **Washington and Oregon**

In Washington state, WoodNet has been established on the Olympic Peninsula to foster productive relationships among wood products companies located there. A similar network has been established in Oregon through the Wood Products Competitiveness Corporation. Oregon's Key Industries program helps new industry groups to articulate their training and technology needs and then helps them meet those needs.

While marketing cooperatives have long helped agricultural producers to market standardized products and commodities in the United States, the networking idea has led other small enterprises to use them as part of their efforts to expand into high-value product and market niches. For example, in north-eastern Oregon, manufacturers of home-grown items such as pickled asparagus, beans, wheat berries; gourmet popcorn; specialty garlic products; syrup, honey, and pancake mix organized the Eastern Oregon Specialties, Inc., a marketing cooperative for specialty foods. The cooperative has helped members develop promotional materials for their products and to enter regional and national markets.<sup>36</sup>

## **Different ways to look at interfirm cooperation**

### **Three Types of Collaborative Networks**

From a review of the literature on networking and the more publicized examples, such as those described above from EU countries and the United States, it appears that there are three main categories of collaborative networks:<sup>37</sup>

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<sup>35</sup>Amy Borgstrom Somers and others, "Grassroots Economic Networking Takes Root in Ohio: Part 1," *GEO: Grassroots Organizing Newsletter*, January/February 1993, pp. 3–5.

<sup>36</sup>*Communities in the Lead*, op. cit., p. 187.

<sup>37</sup>*Ibid*, pp. 18–19.

### **Vertical networks**

In vertical networks, firms at different stages of the same production chain, or with complementary products, join together for production, product development or marketing. The underlying characteristics of vertical networks are the firms' complementarity. The network goal is to strengthen market position. Their input-output relationship is typified:

- by being a link in a particular production chain that manufactures a final product,
- by being a link in the supply chain between suppliers and original equipment manufacturers (OEMs), or
- by aggregating compatible products for more effective marketing.

### **Horizontal Networks**

In horizontal networks, firms identify similar needs for technologies, expertise or services that exceed their individual capabilities or resources. Typically, they collaborate to share equipment or resources, purchase supplies or acquire capital. The underlying characteristic is commonalty. The Network goal is to enhance market intelligence or power, or to reduce the cost or improve the quality of their common inputs such as skilled labor or materials.

### **Knowledge networks**

In knowledge networks, firms want to seek and use new information, want to increase their understanding of business practices, and are willing to share information with others on a *quid pro quo* basis. Knowledge network firms meet to identify and solve common problems, exchange information, and stimulate continuous learning and improvement. These firms may not be in identical or complementary markets. The underlying characteristic is *shared learning systems*. Their goal is continual improvement.

Other characteristics that delineate networks are their degree of formality, openness and the permanence of organizational structures. Distance is also a factor; the more dispersed the network, the greater the need for contractual agreements.

## **Network Models for Value-Added Development**

Another way to look at the role of collaborative networking is to put it in the context of local economic development. Researchers at the University of Washington's Northwest Policy Center have searched for ways to stimulate the economies of their regional economies and have concluded that adding value to existing resources is the key to the economic vitality of communities and regions. One way to facilitate and increase value-added development is to get small and medium-sized enterprises to work together to produce goods and develop markets that individually they cannot. Thus, networking becomes an important component of a value-added development policy.<sup>38</sup>

The Northwest Policy Center has identified five value-added networking models that work in the U.S. and contribute to economic renewal and development:

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<sup>38</sup>Harold Fossum, "Models for Value Added Development Explored," *The Changing Northwest*, Vol. 6, December 1994, pp. 1, 6.

### **Regional hubs that bring together clusters of firms to facilitate innovation in products and markets**

Hubs are typically staffed, regional in scope, and membership driven. They serve as matchmakers to link firms to suppliers, producers, and buyers; and channels for management, marketing, and financial support. Woodnet, a group of woodcrafters on Washington's Olympic Peninsula, is a leading example of a hub focused on rural value-added enterprise development.

### **Collaborative ventures to pursue new products or markets**

Collaborative venture involve shared risk, with specific circles of firms getting together to pursue a joint venture such as developing a new product, organizing a distinct product line, or entering a new market. They work best when the firms have the potential to produce high value products, have seen unfavorable changes in accustomed markets, and can identify particular opportunities to justify the time and risk involved. Oregon's Key Industries program has helped stimulate collaborative ventures in value-added wood and specialty food products.

### **Value-added cooperatives**

Value-added cooperatives provide their members direct access to production facilities, training and a range of business services. Coops are a good way to help micro-enterprises compete in high-end markets. The value-added model embodies the same principles conceptualized by the ILO's Common Facilities Cooperative model described in Chapter 10.

In the U.S., Ganodos del Valle, a New Mexico-based producer coop, has organized its members into a vertically integrated system for raising and shearing sheep; carding, spinning, and dyeing wool; and designing, weaving, distributing, and selling high-end woolen goods.

### **Targeted incubators and training facilities**

Targeted incubators and training facilities make available to firms in an industry the machinery and equipment needed to develop new products or expand their production capacity. Some also train people in new processing techniques or state-of-the-art equipment. Sandpoint, Idaho, and Milton-Freewater, Oregon, are two communities that have established "kitchen incubators" to help area specialty food processors.

### **Value-added industry associations and commissions**

Value-added industry associations and commissions promote their industries as a whole by conducting marketing campaigns and promoting trade development. Several states now have specialty food products commissions.

Frank Pyke, conducting research for the ILO, has identified a sixth value-added network model.

### **Vertical networks in the supply chain between large firms and suppliers.**

Vertical networks are a vertical structure of supply chains for large firms that reduce their number of direct suppliers, preferring to work closely, co-operatively and long term with a preferred "first tier" of firms that may become "systems suppliers," taking on added design and

development responsibilities and frequently coordinating further tiers of sub-contractors and suppliers.<sup>39</sup>

In Thailand, the threat of industry moving to lower labor cost countries is being countered to some extent by spreading supply chains into new areas of excess labor supply. Pyke reports on one case where intervention occurred through a partnership among Bata Shoe Company, government agencies and a leading NGO. The partnership aims to integrate the company from its base in Bangkok to the rural areas by addressing supply and demand issues simultaneously.<sup>40</sup> This includes working with new suppliers of sub-contract labor to help them learn the skills involved in making footwear and thereby become more independent. This approach is described below.<sup>41</sup>

## **Example of value added network**

### **Thailand: The Bata Shoe Company rural subcontracting project**

The Bata factory in Bangkok produces for both the domestic market and international brand names. Shortages of suitable labor forced the company to consider alternative production strategies. While other companies with similar labor problems appear to have decided to move production to nearby lower labor cost countries, Bata has pursued a strategy of integrating with suppliers within Thailand. therefore, a new supply chain had to be created.

Bata decided to collaborate with an NGO that had an established rural institutional support network and was proficient at assisting workers to organize into production and retail co-operatives. They established a small village-based co-operative factory, designed a production line and provided the necessary equipment to sew together the upper part of canvas shoes. Bata provided the initial training.

Subsequently, other villages requested the establishment of local factories. so Bata and the NGO jointly established three more co-operatives. The co-operatives vary to the extent to which they, Bata or the NGO own, pay for or rent buildings, machinery and/or raw materials. In all cases the investment by the co-operatives appears to be significant. The NGO can assist in access to a loan fund if required as well as provide advice on financial matters, how to run a co-operative, and deal with customers.

A Local Area Coordinator helps to distribute raw materials, acts as an intermediary between the villagers and Bata technicians, and generally assists to improve production and machine repair, and new product lines. Bata buys the production of the co-operatives at a market price.

Results: It is reported that the quality of workmanship at these factories is much higher than the norm in Bangkok-based shoe factories, and the capabilities of the co-operatives appear to be growing. workers' wages are high for the area and about the same as at the main Bata factory in Bangkok. It has been found that two-thirds of the women employed at the co-

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<sup>39</sup>Frank Pyke, *Networks, Development and Change*, Paper presented at the International Workshop on Global Production and Local Jobs: New Perspectives on Enterprises, networks, Employment and Local Development Policy, Geneva 9-10 march 1998 (Geneva: ILS, ILO, 1998), p.3.

<sup>40</sup>Ibid, pp. 31-32.

<sup>41</sup>Sources: ESCAP, 1995; P. Obhasanond, 1996.

operative factories are former migrants who returned from Bangkok when viable employment became available in their villages.

Other major firms are interested in the Bata approach.

## Lessons from networking and technical service experiences

A review of interfirm cooperation and networking systems in Europe and North America indicates that the Italian networks are the most developed, the American networks are the least well developed, and the Danish networks are somewhere in between.

In the U.S., most interfirm cooperation is limited to only information sharing and services; joint production is a rarity. Networks are highly broker dependent because of low levels of trust and company commitment in terms of time or money. Brokers mediate conflicts and do most of the work. Finally, American networks have adopted some form of legal structure, and all draw up contracts between firms when working cooperatively.<sup>42</sup>

Danish networks share not just information and services but contracts. They are becoming less broker dependent as trust levels grow and hub staff are hired. Danish networks, like their American counterparts, have adopted a formal legal structure and draw up contracts between firms when working cooperatively.

The Italian model for interfirm cooperation is the oldest and most flexible; it is ever changing and highly competitive in global markets. High levels of trust within the system have reduced transaction costs, enhanced information flow, and reduced or eliminated dependence on brokers. The Italian system of networks has a much more developed and complex institutional service system that supports the emphasis on production.

European and American experiences with interfirm cooperation and collaboration through networks and technical services suggest the following lessons:<sup>43</sup>

- At first, government efforts to stimulate cooperation are resisted.
- Cooperation already exists in purchasing cooperatives, “handshake” agreements to share orders, and training consortia. It is possible to build on these activities to create more extensive collaboration and networking.
- European networks are more formal than American networks and focus on market penetration. Cooperation in sharing information, training, or purchasing has deep historical roots. It is encouraged, but not officially classified as a network.
- Network policies cannot work in isolation. According to Bosworth and Rosenfeld, Europeans do not isolate networks from industrial policy; they consider them as only one part of a comprehensive strategy. Government’s most important policy objective is to stimulate enabling practices and to “weave the social and economic fabric that will allow networks to form, thrive, and disband organically when no longer needed.”

Although few generalizations can be made about the conditions that support successful interfirm cooperation, networking experiences in Western Europe and North America suggest several:<sup>44</sup>

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<sup>42</sup>Kendra S. Hill, *Flexible Network in Theory and Practice: How and Why to Set up Flexible Networks in British Columbia*. Vancouver, B.C., Canada: BC Trade and Development Corp., November 1992, pp. 68–69.

<sup>43</sup>Bosworth and Rosenfeld, *Significant Others*, p. 27.

<sup>44</sup>Pyke, *Strengthening small firms*, pp. 32–33; Hill, *Flexible Networks*, pp 72–73.

- the need for a *common crisis* in the absence of a strong history of cooperation. This seems to be more important in the U. S. than in Europe.
- the perception by firms of an obvious and immediate *common benefit and early success*. Initial activity that provides a benefit to members helps to maintain the interest and desire to continue networking.
- the *active involvement of an independent broker* to organize and drive the network.
- the *active involvement of a company-dominated board*. Although a broker is needed to catalyze network formation, decisions about operations must come from the members.
- the members must *choosing the network structure* rather than having it imposed on them by someone from the outside.
- *opportunities for personal contact* among the owners/managers, especially among small firms.
- a shared *commitment to cooperation* at all levels in the participating firms.
- *geographic concentration* is a prevailing, but not essential, characteristic of most successful interfirm cooperation. Some limitations imposed by a lack of spatial proximity can be overcome with modern telecommunications and information processing technology.
- *someone besides company staff is needed to do the work*. The broker and hub staff must be prepared to do virtually all the work during the first year.
- *presenting an image of quality and stability*.

## Organizing interfirm cooperation and services

The Italian model is the most highly developed system for promoting interfirm cooperation currently in operation in Europe and North America. If it is the chosen model, how does a local community or region begin the process of organizing to achieve that level of cooperation? The answer to this question has two parts. First, the group must know the key concepts and use them to design a suitable strategy to create a local or regional program. Second, the group must follow a step-by-step guide to carry out the organizational process.

### Key concepts for developing interfirm operation<sup>45</sup>

#### Share business opportunities from the beginning

Brokers should focus on starting networks to share business opportunities, not just information or services. Shared services can develop within the network hub to help access the business opportunity.

#### Achieve some early successes

Initial efforts should be aimed at activities that can deliver some early successes to the network members. Successes ignite interest in the concept and provide the momentum for growth and expansion.

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<sup>45</sup>Hill, *Flexible Networks*, pp. 69–71.

### **Get as many firms as possible into the network**

Brokers should try to obtain members from both competing and complementary firms. The more firms there are involved, the more internally competitive the network. Also, with a larger number of firms, the network can change lead and subcontracting firms from one contract to the next, better distributing the benefits among the participants. Finally, the more firms that contributing financially, the more powerful and useful the hub or service centre can be.

### **Develop sector-specific hubs or centers**

Hubs providing services to vertical industry sectors can both promote networks and improve the competitiveness of individual sector firms. If sufficient funding is available within a network program, the establishment of hubs significantly improves the effectiveness of the initiative. Firms could then draw on the services of the hub and concentrate networking activities on accessing business opportunities. The neutral hub provides administrative support for the business of the network, helps with or takes responsibility for marketing, and provides a neutral meeting ground for the network firms. Firms share the cost of services to become more competitive and access the services through the hub.

### **Educate trade associations**

Trade associations, if they exist, have the potential to be transformed into sector-specific “neutral” hubs. If associations’ services more closely resembled those of Italian service centers, perhaps, with the addition of network brokering services, flexible networks would be better able to gain a foothold in a nation’s industry. Already, some of the Danish trade associations are growing and changing in response to members’ networking activities.

### **Invest in the broker**

Because early stage networks depend heavily on a broker, brokers need to be trained and adequately compensated. Universities can play an important role by establishing courses and degrees which focus on teaching the basics of community economic development, interfirm cooperation, and the technical and interpersonal skills for effective brokering. It is equally important to use disinterested organizations such as community colleges and economic development organizations to serve as catalysts for starting networks and supplying suitable persons to serve as the brokers.

### **Obtain seed money to start networks**

Virtually all successful networks have been established with seed money from some public source.

### **Adopt a long-term perspective**

Developing successful interfirm cooperative networks require a long-term perspective. Return on Investment (ROI) can be measured in a number of ways—by the services provided to member firms, by the number of self-sustaining networks established over a three to five-year time period, or by the jobs created by network member companies—but it must be measured in a multi-year time frame.

## Market the network as a single entity

Networks are not single companies that share marketing services, but continue to act alone. The objective is to create groups that actively seek large or complex business opportunities that involve more than one member company. Consequently, participation in a network emphasizes group projects and the group's ability to quickly form project teams to provide product or service solutions.

### Getting Started

## Steps to building interfirm collaborative networks<sup>46</sup>

This section summarizes the common process of establishing successful interfirm cooperative networks.

Flexible interfirm cooperative networks are formed for a variety of reasons and are structured in many different ways. Some are organized to access new markets, others to share services. Regarding structure, some networks are nothing more than an informal group while others are incorporated entities.

Starting a program to promote interfirm cooperation by organizing networks of small businesses can be carried out under the auspices of a local government, regional economic development agency, chamber of commerce, or other suitable institutions that are interested and capable of launching and promoting the program.

From the public sector's point of view, the first step in building interfirm cooperative networks is deciding how to start and facilitate the process. This can be done by: (1) organizing independent service centers on a geographical or sectoral basis and having them serve as network brokers; or (2) recruiting competent brokers from the private sector and sending them out to promote and organize networks. The development of service centers would follow, in due course, based on the interests and needs of the network members.

In the absence of substantial financial resources to start service centers, it would probably be necessary to start the networking process by the using the latter method in most countries and communities. The following steps are based on that situation.

### Step 1: Recruiting competent brokers

Despite differences in form and function, most networks are created by a common process. First, a broker conceives the idea and implements a number of steps to bring the network into existence. The success or failure of a new network depends almost entirely on a broker's skills. Experiences of networks in EU countries and North America suggest the following attributes of good brokers:

- *Independent*—Only a broker with no ties to member companies can be entrusted with confidential and sensitive information and the power to make contentious decisions.

<sup>46</sup>This section has been adapted from Chapter IX of Hill, *Flexible Networks*.

- *A skilled mediator and deal-maker*—A broker must understand the basics of striking deals among firms. Conflict is bound to arise among competing firms working together; brokers must defuse the conflict and mediate a solution.
- *Able to impress senior management*—The broker must be able to communicate with and win the respect of the senior management in member firms. CEO involvement in networks is crucial.
- *A skilled company analyst*—Brokers need good analytical and communication skills to identify synergy's upon which to build networks and to dissect companies and understand the functional areas of a business.
- *A skilled market analyst*—Brokers bring business opportunities to potential and existing networks. To do so, the broker must be capable of researching and analyzing potential markets.
- *A good communicator and public speaker*—A broker needs to be able to communicate complex ideas using simple language; the network concept is not easy to explain. Many networks are marketed by a broker's speeches. The ability to address groups (such as the CEOs of a potential network, the employees of networked firms, or potential buyers of network products) is very important.
- *Someone who gets things done*—The broker must do more than just talk and think. Setting up a network requires much paperwork, planning and organizing. A business plan must be written, money must be obtained, markets must be researched, a brochure must be printed, and on and on. Usually, the broker does the work or manages the process.
- *Someone who gets out in the trenches*—The broker needs to meet frequently with member companies, especially in the initial stages of the network, but CEOs will not travel to see a broker. Someone who likes to spend all day in an air-conditioned office is the wrong person for the broker job.

A background in the prospective network's industry sector can be an asset, but it is not necessary. Industry experience may buy the broker credibility, but a fast learner and persuasive speaker could be just as effective.

Once brokers have been selected and trained in the basics of interfirm cooperation and small enterprise development, network formation can begin.

## **Step 2: Developing and selling the concept**

In Central and Eastern Europe, brokers face a challenging industrial landscape. Hundreds of old state enterprises and thousands of privatizing and newly created firms in dozens of industry sectors have little or no history of voluntarily cooperating with other firms.

To move from this situation to one featuring a substantial number of networks is no simple process. However, it is possible. Experience suggests that the task can be accomplished in four steps over an extended period of time.

## Choosing an appropriate sector

The broker should examine key industry sectors in the province and select those that display some or all of the following characteristics:

- A large number of specialized, small firms.
- Fragmented, niche markets.
- Rapid technological change in production processes.
- A large, identifiable market opportunity presently unavailable to most of the firms.
- A general perception among small firms that the industry is threatened.
- Opportunities to build value-added chains.
- Opportunities to combine complementary skills or products.

A sector with a strong trade association or some history of cooperation is easier to network than a previously unlinked group.

## Choosing appropriate firms within the sector

Once appropriate sectors are identified, the broker must decide which firms should make up the network. Personal meetings are the most effective means of identifying potential participants. Before the meeting process begins, the broker might screen firms (for a certain minimum sales level or some measure of export readiness) to eliminate unlikely candidates.

Before commencing the meeting process, the broker should develop a detailed interview guide. Information gathered in the interviews should be recorded in some standardized way for later analysis.

The meeting should cover:

- *Company activities.* The broker needs to understand both skills and products. Some networks combine and redeploy the skills of participants to open up new markets, others put together new product lines using the best products from various firms.
- *Management expertise.* The expertise of management and their market connections are important. Firms may be able to aggregate complementary management skills to build a strong network.
- *Suppliers and buyers.* Brokers should be familiar with a company's suppliers and customers to identify potential synergies with other firms in the sector.
- *Financial stability.* Only companies with a reasonable level of financial stability are good network candidates.
- *Threats and opportunities.* Perceived threats should be explored. Both common opportunities and common threats provide a good foundation for a network. CEOs should be asked to provide a "wish list" during the interview. Who do they want to sell to? Why aren't they selling to them? Their wishes might be achievable through a network.
- *An introduction to the network concept.* The broker should briefly describe flexible networks to interviewees, attempting to gauge interest in the concept. However the real sales pitch should come later (see Step 3, below).

Once the meeting stage is complete, the broker must analyze the results and conduct market research, looking for potential synergies for the network to exploit. Brokers might want to look for specific international market opportunities to catalyze new networks. Large international opportunities, often inaccessible to individual small firms, might capture the attention of potential network participants and be less threatening. Cooperating with competitors to compete internationally is often less troubling than cooperating with other firms in a home market.

## **Selling the Concept**

Once a market opportunity is identified and researched, the broker should invite potential network participants to a meeting. The meeting should constitute a professional and convincing presentation of the network concept, followed by an introduction of the specific opportunity available to the firms in the room.

## **Organizing the Group**

A core group of companies interested in forming a network emerges from Step 3. The group is then organized. The broker needs to set-up a Board of Directors or Steering Committee made up of the CEOs from the member companies (or key companies if the group is especially large). Generally, the broker chairs the group, at least for the first year, calling meetings and setting the agenda.

The Board of Directors define a mission for the network. Policies and procedures outlining how the network is to manage business opportunities and pay for its activities is developed. The broker should push for Board-level selection of lead firms.

Each company should submit a letter of commitment to the mission and the policies and procedures of the network at this point.

## **Step 3: Commencing the business of the network**

### **Making a detailed business plan**

The network needs a business plan that turns the network mission into measurable objectives. The broker writes the plan under the direction of the Board of Directors. The plan should contain strategies for achieving the objectives, plus time and budget commitments.

The broker needs to identify a primary objective that is easily achievable in the short term. This objective should be unachievable by firms acting individually and, ideally, it should benefit all firms in the network.

During this stage, the broker should research sources of public financing. If no money is available to finance the start-up of the network, member companies should now contribute appropriate funds.

## **Implementing the business plan**

The broker, using the assistance of company staff or a public sector support organization, begins implementing the business plan. Initial actions should be tightly focused on achieving the first objective. Once that is accomplished, another objective should be targeted for achievement

Marketing literature should be developed during this stage,. The broker should consider creating a database or catalogue of member firms' experience, skills, technology, products and market contracts that could be used to identify opportunities and select lead firms.

## **Step 4: Ongoing operation**

Once the network begins to operate, the broker should gradually shift the workload to member firms. At the same time, the broker should continue to identify and priorities key opportunities and problems, setting and achieving specific related objectives.

After about three years of operations, the network should no longer require a broker. However, if the network continues to need an impartial manager, the network should recruit and hire that person.

## **Helpful Hints for Network Brokers**

### **Brokers, not CEOs, do most of the work**

Even during the early stages of network development, CEOs should not be expected to spend more than about five hours a month on network activities

### **Formal meetings should be kept to a minimum**

Communication lines can be kept open without constant meetings. The broker keeps communications open and maintains contact with member CEOs and appropriate member company staff. He also encourages network members to pick up the phone and talk to one another.

### **Networks need to grow and change**

Although one market opportunity might catalyze the formation of a network, the network needs to access many opportunities. The broker is always looking for new network opportunities. Networks keep growing and changing by developing and providing services that benefit all members.

### **Networks should exploit complementarity whenever possible**

Networks that exploit complementarity are the easiest to build. The network markets a complete product line with each firm contributing one component.

## **Research and technology transfer**

In this modern world of high technology, rapidly changing environments and global competition, achieving success in many manufacturing and service industries requires access to technology

and the ability to acquire new technology. It also requires changes in organizational structures and human resources systems.

Compared to their large competitors, new entrepreneurs and small businesses, in particular, are at a disadvantage to obtain information about and access to the latest technology. This poses a serious problem unless some means is available to help them overcome this barrier. In addition to the collaborative networking and other forms of interfirm cooperation discussed in Chapter 10, several additional approaches are being used at the local level to help small businesses obtain access to needed technology and to help larger businesses and government agencies make changes in their organization and operations.

## **U.S.A.: Cooperative Extension Model**

In the United States, state administered agricultural extension services, offered through the federal-state-local funded Cooperative Extension Service, link publicly sponsored research at state land-grant universities and the U.S. Department of Agriculture laboratories with individual farmers throughout the nation. Over the past 100 years, this research, extension and technology transfer system has excelled at bringing applied university and industrial expertise to the problems of agricultural producers and processors. As a result, American agriculture has become the worlds most productive.

More recently, there have been successful attempts in the U.S. and elsewhere, to adapt the extension model and apply it to a variety of technology transfer objectives in other industries. For example, some features of the extension model can be seen in the Steinbeis Foundation Technology Transfer Centers in Baden-Wurttemberg, the Danish Technological Institute, and the New Jersey Institute of Technology programs.

One American observer has suggested four strategies using variations of the U.S. agricultural cooperative extension model to foster technology transfer in other industries: (1) technology broker programs; (2) field office programs; (3) technology centers; and (4) industrial institutes and business service centers. Examples of each are operating or under consideration in America and elsewhere.<sup>47</sup>

1. *Technology broker programs.* These disseminate technical information to industrial firms and refer them to other sources of information and assistance. The approach is designed to provide advice and limited assistance to a large number of firms. Examples include Pennsylvania's Technical Assistance Program and Ohio's Technology Transfer Organization.
2. *Field office programs.* These programs provide full-time professionals who work with local companies in their regions; they often utilize university-based expertise. Field office programs make available more intensive services designed for problem solving. Examples of such state-sponsored programs are the Georgia Institute of Technology and the Maryland Technology Extension Office.

Because of the decline of agriculture in rural areas in many states, the U.S. Dept. of Agriculture is attempting to develop a more industrial and business oriented field office approach to operate out of the nation's land-grant universities using the field agent network and the essential features of the cooperative extension service model. As part of

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<sup>47</sup>Philip Shapira, *Modernizing Manufacturing: New Policies to Build Industrial Extension Services*, Washington, D.C.: Economic Policy Institute, 1990, as quoted in *Communities in the Lead*, pp. 183–187.

this effort, in 1992 the U.S. Congress passed legislation authorizing the funding of several extension model projects to promote cooperatives and other forms of networking and technology transfer for economic and employment development in rural areas.

3. *Technology and productivity centers.* Technology centers, productivity centers and state-sponsored consulting services act as coordinating offices. These typically organize university and private sector consultants into teams to offer client firms the expertise they need. They often emphasize modernization through the use of new and existing technology and offer assistance to identify alternative solutions and also implementation and training.

Examples of state-sponsored technology centre programs include the Pennsylvania Industrial Resource Centers, the university-based Centers for Productivity and Quality in Maryland and Virginia, and the Georgia Productivity Center. At the federal level, the National Institute of Standards and Technology is sponsoring the formation of Manufacturing Technology Centers; three have been formed in Ohio, New York and North Carolina. This network has now been expanded nationwide.

In addition, the U.S. Dept. of Commerce has a Clearinghouse for State and Local Initiatives on Productivity, Technology and Innovation. The clearinghouse keeps a comprehensive database of federal, state, and local initiatives and regularly prepares reports about lessons learned and what approaches are working and where.

4. *Industrial Institutes and business service centers.* Industrial institutes and business service centers located at many colleges and universities assist in technology transfer, provide information on domestic and international markets, and track product changes.

## Chapter 11

# Conduct a community workforce development audit

*[Adapted from Conducting a Community Audit: Assessing the Workforce Development Needs and Resources in your Community. USDOL, Employment and Training Administration, Office of Adult Services, August 2000]*

The resource materials in this chapter are intended to introduce Community Economic Renewal (CER) Teams and other local stakeholders to the ways in which community workforce development audits can enhance the effectiveness of their economic development initiatives. They are also intended to provide some support to local groups interested in launching their own community workforce development audits.

## The relationship between labor markets and economic renewal

Economies in most industrialized countries are undergoing substantial changes, some are transitioning from command to market economies, and some are moving from industrial to information economies. Firms and even whole industries are being born and are dying at an unprecedented rate. New technologies, and new products based on them, are introduced almost daily.

The result is a chaotic labor market:

- Workers have trouble getting information about career opportunities and career paths. They don't know where the good jobs are or how to access them.
- Firms struggle to find employees with the right skills since their needs are changing so rapidly.
- Education and training providers must scramble to keep up with these changes and frequently are unable to do so.

In short, the speed of transformation in local economies is creating critical information gaps.

At the same time, the efficient and effective functioning of the labor market is more important than it has ever been. In region after region through countries like the United States, labor shortages are the number one impediment to economic growth. Timely, accurate, and detailed information is the first step in addressing this problem.

## What is a community workforce development audit?

A community workforce development audit is a specialized strategic planning effort carried out by community leaders, such as a community economic renewal (CER) Team or other groups to assess what new skills may be in demand in growth sectors of their economy and where a decline in demand for certain skills may signal future layoffs. On that basis they can mobilize the resources at their disposal to more effectively match labor supply and labor demand. In short, community workforce development audits provide you, as community leaders, with a sense of your options.

### Launching a successful community workforce development audit

A community workforce development audit is not an empty exercise. Its purpose is to provide useful information about workforce development needs to key local leaders, including business enterprises and workers—as well as policymakers, workforce and economic development practitioners, and educators. In other words, community workforce development audits are a means to conduct strategic research about the future directions of workforce development that can be used to support the achievement of economic renewal objectives in the community.

Community workforce development audits provide Community Economic Renewal (CER) Teams and stakeholders in a local area the information they need to develop a shared view of the critical workforce development challenges that confront them and a structured method within which they can collect information and find solutions. Workforce development audits focus not only on the human resource needs of a community but also on its assets.

### Complete a “self-assessment inventory” to identify strengths and weaknesses

If, after reviewing the following steps to launching a Workforce Development Audit, you and your CER Team decide to carry out one in your community you should complete the "Self-Assessment Inventory." The Self-Assessment Inventory can be obtained at the following website: <http://www.doleta.gov/backgroundinformation.html>. Completing this inventory will help you identify areas of strength and potential areas needing improvement.

## Getting Started

### Steps to launch a community workforce development audit

#### Step 1: Define the goals

The first step in launching a community workforce development audit is to define its goals as specifically as possible. Is the audit a general one, aimed at providing an overall workforce development picture of the structure and composition of a local/regional economy and a detailing

of its available human resources. Or, alternatively, does the audit have a more specific target? For example audits can be designed to determine the workforce development needs of and resources available to a particular industry, such as health care or steel making. Or the focus can be on a particular population group, such as dislocated workers.

## Tailor goals to support CER strategies

Tailor the workforce development audit to support local CER strategies. The goals of each audit will shape everything about its design and execution. The goals determine:

- The stakeholder partnership-that is, who is brought together to provide direction to the project
- The customer(s)-that is, the expected end user or users of the information that is gathered by the project
- The scope of the project-that is, the breadth and depth of its analysis
- The methods used to gather the data and the data sources themselves
- The resources available to support the project
- How the final results get used

## Some goals for workforce development audit

What are the likely goals for community workforce development audits? The list of all possible goals would be a very long one, but some of the more common include the following: (Of course, these goals are not mutually exclusive. Many-if not all-community workforce development audits are conducted for multiple reasons.)

- **Creating overarching strategic plans for workforce development in a community or region.** CER Teams may assume responsibility for workforce development within their communities and support for rapid response worker adjustment with an even greater emphasis on proactive interventions to anticipate and prevent the most harmful impacts of large layoffs. Communities should act in terms of labor market areas and, as such, promote regional cooperation among all communities in the labor market. To successfully meet these challenges, CER teams should look for ways to get the information they need to understand their labor markets and to make informed, long term strategic decisions about how workforce development can support community economic renewal.
- **Developing workforce development strategies aimed at addressing the needs of particular population groups.** CER teams (and other stakeholders within a community) have reason to target specific population groups and devise strategies appropriate to their special needs. These special groups can range from dislocated workers to youth, or former welfare recipients. Targeted community workforce development audits are useful in these cases. Such an audit focuses on those industries and occupations likely to employ ( or re-employ) the targeted population group and on the skills and needs of those workers.

- **Developing strategies aimed at particular groups of firms or industries.** Interest in developing strategies aimed at groups of firms began in the field of economic development but has made its way into the workforce development arena. These are often called sectoral strategies.

Sector strategies entail targeting a set of employers that share a set of common characteristics (such as labor force needs). The idea of a sectoral intervention is to work with groups of firms to address a public policy concern and, at the same time, solve one or more common problem that the firms share. For example, a local area might target a group of employers in the health care industry to both employ hard-to-place former welfare recipients and solve a labor shortage problem for the industry.

A specialized community workforce development audit (see section below) is the logical first step in such a strategic approach. The purpose of the audit is to more fully understand the competitive challenges and labor force needs of the target industry, to identify where skill gaps exists, and so on.

- **Developing proactive layoff aversion strategies.** Historically the employment and training system in most countries has placed more emphasis on responding to layoffs and closings than on preventing them. However, many communities and governments are now trying to make layoff prevention a priority. Layoff aversion strategies range from effective early warning networks to rapid response to sectoral strategies aimed at improving the competitiveness of an industry to firm retention strategies (including customized and incumbent worker training, business visitation programs, manufacturing modernization programs, and so on-as discussed in other chapters of this CER Resource Handbook). To implement any of these approaches, local areas need sophisticated information on local industry and business trends.
- **Providing consumers with the information they need to make informed decisions.** One of the signature features of modern workforce development programs is its commitment to place decision making in the hands of the consumer-that is, employers and workers. But if consumers are to make informed career decisions, they must have timely and high quality information. One goal of many community workforce development audits is to develop informational "products" for use by consumers.
- **Ensuring that education and training providers are responsive to the needs of the labor market.** In the face of rapid economic change, education and training providers find it hard to keep pace. An implicit-and often explicit-goal of many community audits is to forge tighter linkages between employers and educational institutions so as to improve the relevance of their offerings.
- **Establishing performance standards (such as wage/income goals) for public programs.** Accountability is another hallmark of modern workforce development legislation in most countries. In response, there is a serious effort on the part of many regional and local areas to establish meaningful standards and benchmarks for their workforce development programs. To do so, policymakers and local leaders need to know which firms, occupations and industries will contribute most to the economic

and social health of their region. Community workforce development audits can provide them this information.

## **Step 2: Build the stakeholder partnership**

Because workforce development audits are part of a broader community strategic planning effort, they are often initiated by collaborations of key stakeholders within a community or region. These partnerships typically include employers and employer organizations, unions, economic development agencies, social service agencies, community-based organizations, and educational institutions, as well as the employment and training community.

### **The relevant stakeholders will depend on the goal of the project**

Of course, the relevant stakeholders will be different depending on the goal of the project. For example, if the project is focused on a particular industry, it will look different from a project focused on the economy overall. In all cases, however, a broad based partnership that not only includes the important stakeholders but engages them in an active way is critical to the success of a community workforce development audit project.

### **Successful audits require the full cooperation of employers**

This is particularly true of the employer community. For community audits to be successful they almost always require the full cooperation of at least some sectors of business since much of the needed information can only be obtained from firms and workers. Employers are also essential to implementing the findings of the audit.

### **Unions are particularly valuable partners**

For some of the same reasons, unions also are particularly valuable partners. Unions often have a bigger picture perspective than individual employers since they look across an entire industry. At the same time, their members may know better than anyone what kinds of skills a job requires.

### **Other important stakeholders include community-based organizations**

Other important stakeholders include community-based organizations that can provide access into the neighborhood they serve; economic development organizations that often have a wealth of experience analyzing local economies and working with local firms; and educational institutions that regularly conduct labor market audits of their own and that are central to the design and delivery of education and training programs.

To take full advantage of the wealth of experience and knowledge these partners bring to the table, the CER stakeholder partnership must structure itself to invite and encourage active

participation, for example through the use of subcommittees. In most cases, partners will not have a lot of time to devote to the project so the structure must maximize input without burdening members with day-to-day issues and problems.

In some cases, all the important stakeholders cannot be active participants in the design, oversight, and implementation of the community workforce development audit. Here, the project needs to seek other avenues of input both to ensure the accuracy of the information gathered and real commitment to the conclusions reached.

In the development of stakeholder partnerships, however, one point cannot be overemphasized: Successful community workforce development audits are never simply staff-driven (that is, by the staff of an agency or organization). A community workforce development audit that does not fully engage the relevant community cannot have any meaningful impact.

Finally, the process of conducting a community workforce development audit frequently uncovers new partners. Said one practitioner: "As you start to put the story together, your story actually finds the right partners. The important thing is not to turn them down. Traditional research models would tell you that including these partners will bias your data. That's crazy. It's the only way to get meaningful information."

### **Step 3: Determine the scope of the project**

After defining the goals of a community workforce development audit, the local CER Team needs to determine the scope of the project. This includes both its breadth and depth. That is, communities need to decide the geographic reach of the audit as well as its level of detail.

#### **Geography of audit should match labor market boundaries**

In general, the geography of a community audit should correspond to the boundaries of an actual labor market, as defined by commute patterns, patterns of economic activity, and so on. Too often, projects such as these are limited by political boundaries (such as the boundaries of a city or town) that poorly reflect the way in which the labor market actually functions. This is also a common problem in the data generally available to the group. (In most cases, the community is smaller than the regional labor market, though in some cases a CER Team may contain multiple communities and cover the entire labor market.)

Regarding the "depth" of the analysis, again the appropriate level and detail depends entirely on the project's goals. Projects that are attempting to gain a broad overview of a region or an industry or set of industries may not need the same level of detail about specific skills and occupations than a project that is focused on building career ladders or addressing skills shortages within a particular industry.

It is important to remember that mapping community assets is a central component of the analysis. Since examining assets is relatively new to workforce development, there are fewer established data sources available. But here also the scope and detail of the data gathered depend on the project's goals.

## **Step 4: Select suitable methods and approach**

Much of the labor market data that are needed are publicly available and readily accessible. The three major sources of labor market data are the National Census Bureau or agency, the Ministry of Labor Unit or Office that collects Labor Statistics, and the Economics Ministries that collect other economic and statistical data..

The sources of information and methods used to conduct community audits correspond to the purpose of each and, to the extent possible, engages stakeholders in the process of information gathering.

However, for a community workforce development audit to inform strategy, data needs to be transformed into information. The CER stakeholder partnership members must be able to tell a compelling story about the present and possible future of their community and local economy.

### **Go beyond traditional secondary sources of information**

Therefore, in conducting a community workforce development audit it is usually necessary to go beyond traditional secondary sources. Two of the biggest problems with available data are "dating" problems and "level of analysis" problems-and frequently there is a trade off between them. That is to say, often the best and most detailed information is out of date. (A good example is the National Census that, while providing a wealth of useful detail, is usually more than a decade old.) More current sources of information tend to be less finely focused. There are other problems with available data also, such as the fact that most are based on the categories of the "old" economy and don't do a good job of capturing the current reality.

### **Some questions can be answered through “primary research”**

In general, however, there are some questions that are better answered through "primary" research-that is, by talking directly to employers and workers. The process of information gathering can also be a means through which stakeholders are engaged in the effort to understand their community and through which they can begin to build consensus about problems and solutions. As such, when it is practical community audits should involve employers and community members in conducting the "research".

This kind of hands on research is also a way of hearing the customer's voice. Workers and employers both can make their perspective heard when community audits use focus groups, interviews, and other similar methods.

Finally, data for analyzing the other relevant needs of a community-such as the sufficiency of childcare provision or the transportation system-are less readily available in a form that is useful without "massaging" or without additional primary research.

### **There are no databases for mapping the community’s workforce assets**

Similarly there are no readily available databases for mapping the assets of a community, beginning with its workforce development assets. Most local areas do not even know the range of programs provided by the vocational training and employment service partners. To obtain this

information, local areas generally need to implement a survey of their own. The same is true if the aim is to identify all the various programs, institutions, and funding streams available in areas such as labor exchange, training, case management, and supportive services (such as child care, mental health, services for the disabled, services for immigrants and refugees, and so on.)

## **Specialized methods are available to support targeted audits**

A variety of specialized methods are available to support targeted components of community audits. These include the following:

- **Sector and cluster analysis.** As an analytical tool, sector analysis is the next logical step after a "basic" audit has been completed. Basic audits provide a map of the labor market and resource base in a region. Sector analysis identifies the industries in which the region has a competitive advantage.
- **Occupational and skills analysis.** Similarly, basic community audits provide insight into broad occupational trends that can be translated into skill trends. Frequently, however, job seekers, educational institutions, employment and training professionals, policymakers and others need much more detailed information about the changing character of jobs and skill requirements. Some of this information can be gathered from secondary sources, such as O\*Net (U.S. Department of Labor's Occupational Information Network). However, in general detailed job and skill data needs to be gathered through surveys, interviews, and focus groups.
- **Career ladder mapping.** One of the more disturbing characteristics of the "new" economy is that career paths are increasingly unclear to workers. One problem is that many career paths now cross firms, that is, to move up the ladder a worker needs to move from one firm (and in some cases, from one industry) to another. Career ladder maps uncover these "hidden" paths and make that information readily available to workers.
- **Identification of critical skills shortages.** In an era of rapid technological change and extraordinarily tight labor markets, the question of how to accurately identify and respond to skills shortages has taken on special urgency. In general, available secondary source data are not useful. This makes the task especially challenging. Local areas use a variety of "primary research" techniques, such as surveying local employers and convening focus groups.

## **Determine who should conduct the research**

There is nothing so technically complicated about much of the research involved in a community workforce development audit that it requires an economist. Much of the research could be done by staff assigned to help a CER Team or by another local organization. However, very often these staff do not have the time to commit to such an effort. Also, some of the more specialized techniques are better implemented by experts. Therefore it generally makes sense for local organizations to contract out some of the specialized work if they have the resources to do so.

However, two critical caveats are in order. First, as just suggested, some of the research—the "primary" research—involves going out into the community or into firms and talking to employers, workers, citizens, and other stakeholders. There are many good reasons why a CER Team and its partner organizations would want to conduct this part of the research themselves. Second, under no circumstances can the work of a community workforce development audit be "turned over" to experts. It is absolutely critical that the CER stakeholder partnership remains firmly in the driver's seat even when it chooses to contract out part of the research. The partnership must set both the broad goals and the specific expectations for its contractors if it is to end up with a useful product.

## **Step 5: Find the resources to conduct the audit**

How do CER Teams or local area partnerships financially support community workforce development audits? By combining the resources of all the key stakeholders.

In countries like the United States, where workforce development audits have been extensively used, a wide variety of resources have been tapped to support community audits. Since community workforce development audits have multiple stakeholders, these partners can bring their resources to the table to support the work being undertaken.

### **Partnership and collaboration are keys to success**

Partnership and collaboration are central to the success of community workforce development audits in most respects, including their financial support. In a very real way, whether an organization is willing to devote resources to the project is an important signal of its level of commitment.

### **Collaboration conserves local resources**

Collaborative community workforce development audits are also a way to conserve precious local resources. It is important to remember that many of the same stakeholders who would be brought together in a community audit project already conduct labor market and other kinds of surveys for their own purposes. This includes firms, employer organizations, unions, philanthropic organizations, economic development organizations, educational institutions and so on. Much of this work is piecemeal and duplicative. By joining forces, they can often get a better product that all can share at a reduced collective cost.

This is true not only within communities, but across them as well. Remember that genuine economic labor markets usually include numbers of towns and/or regional areas. As such, regional partnerships including several towns and several neighboring regions generally make good sense.

## **Step 6: Determine how the audit results will be used**

Ultimately the real test of how effective a community workforce development audit is lies in how its results are used. Ensuring that the audit is more than a paper exercise begins when the

stakeholder partnership is assembled. This body not only has to be broadly representative of all key stakeholders, it also must have the authority to do something meaningful with the results.

All partner organizations need to be represented by decision makers. In the case of employer representatives, often it is also important that they are able to speak broadly for their industry-rather than simply for their firm. It is also important to ensure that the stakeholder partnership is supported by competent and well-trained staff.

## **There needs to be a commitment to use the information gathered**

From the beginning, the purpose and goals of the audit need to be clearly articulated and supported by all partners. And from the beginning there needs to be a common commitment to use the information gathered strategically and practically to shape programs and policy.

One form this can take is simply ensuring full discussion of the results. This can be done by holding small meetings of key local decision-makers and/or larger conferences where much of the community is invited to hear about and discuss the results of the research. If the information gathered by the workforce development audit actually tells a compelling story about the community-its economy and its resources-such a conversation can be extremely powerful and valuable. Often it will be the first time a community has had the tools to permit it to begin to make strategic decisions in response to common human resource problems or concerns.

However, as someone who has conducted many such audits put it: "A community needs to be prepared for opportunity to strike". By engaging in this process, communities are likely to uncover exciting new possibilities but they will have wasted their time if they fail to act on them.

## **Conducting an audit should not be a “one-shot” effort**

Finally, community workforce development audits will be far less useful if they are one-shot efforts. Whether the project is focused on facilitating strategic planning for a region or designing a training program for an industry or set of industries, it is impossible to achieve meaningful results overnight. In fact, efforts that do not commit to a long-term time horizon are unlikely to get the support they need from the private sector-for good reason. As such, from the inception of a community workforce development audit project, the stakeholder partnership has to confront the question of how to sustain itself.

## **Step 7: Determine what the products of the audit will be**

The products of a community workforce development audit can take a variety of forms-from accessible data bases for use by job seekers and career counselors to formal reports to decision makers to informational brochures for the community. The products of each audit correspond to its purposes and goals.

In fact, in some cases the community workforce development audit may result in no formal "product". Instead, the information it generates is translated into program design, curricula development, policy decisions, and so on. Its product, then, takes a living form-far more effective than glitzy reports that gather dust on decision-makers bookshelves.

## **Audit products must be accessible and useful**

Whatever form they take, the products of a community audit need to be accessible by and useful to their intended audience. They also need to be timely and updated frequently. As such, increasingly communities are creating interactive products to improve their accessibility and relevance.

### **Step 8: Next steps**

What should the CER team do if it wants to conduct a workforce development audit? The first step is to conduct a "self-assessment inventory" so see if an audit is warranted and identify what areas might need improvement. It should then conduct a baseline community workforce development audit if one has not been done previously.

### **Conduct a baseline audit**

The next section sets out the basic steps and methods for conducting a baseline community workforce development audit. This will be followed by a section that will provide information about some of the tools that can be used to conduct specialized community workforce development audits. There are also two appendixes at the end of this chapter:

- Appendix 1 summarizes, in table form, the other types of specialized community workforce development audits and strategies that can be tailored to different strategic goals.
- Appendix 2 contains some examples of how workforce development audits can be tailored to support local renewal strategies.

All of the material presented in this chapter, plus a self-assessment inventory-- which is a checklist that enables local CER Teams and other organizations engaged in workforce development to identify areas of strength and potential areas of improvement--can be obtained from the USDOL/WSI national project office and can also be found on the Internet at <http://www.doleta.gov/backgroundinformation.html>

## **How to conduct a baseline community workforce development audit**

The purpose of a "baseline" workforce development audit is to establish a basic picture of the structure and composition of a local/regional economy and to catalogue its workforce development resources. As such, a baseline audit is the first step in any more extensive or sophisticated analysis. The components of a baseline audit include the following steps

## Getting started

# Steps to conduct a baseline community workforce development audit

## Step 1: Define the geographic area

A critical question before beginning a baseline audit is how broad or targeted a geographic area it should cover. The answer should be driven by the purpose of the audit itself-although as a practical matter it may also be influenced by the availability of data for different units of analysis. For example, if the purpose of the audit is to help the Workforce Investment Board (WIB) develop a targeted intervention for residents of a high poverty community, the appropriate region might be defined by reasonable commuting distance from that neighborhood.

### Geographic scope should correspond to economic region

In general, the geographic area analyzed should correspond to an actual economic region, defined both by the interaction among firms and by the commuting patterns of workers. A common problem in the data currently available to WIBs is that it tends to be confined to the Local Workforce Investment Area, which rarely constitutes an actual labor market in itself. (In most cases, the local Workforce Investment Area is smaller than the regional labor market, though in some cases a local Workforce Investment Area may contain multiple labor markets.)

For most purposes, the best proxy for an economic region is the "metropolitan statistical area" (MSA). MSAs are defined by the Office of Management and Budget and typically take into account various measures of economic interaction and commuting patterns. The Bureau of Labor Statistics of the U.S. Department of Labor designates Labor Market Areas (LMAs) for purposes of reporting for the Unemployment Insurance program. Major LMAs correspond to MSAs, although this is not true for areas with a core population of less than 50,000. For non-metropolitan areas that are not covered by a MSA (and there are, of course, many), analysts will probably have to aggregate county level data.

## Step 2: Find the data

There are numbers of sources-both public and private--of labor market information. The sources listed in this report are only the tip of the iceberg. Also the state and local agencies responsible for providing and organizing data are constantly updating and improving their products-both in their content and in their format and "user, friendliness". Therefore before initiating a community audit local areas should investigate fully the data options available to them. The state Labor Market Information Agency is a good place to start to get this information.

### Some data sets have serious limitations

However, before embarking on a local labor market audit, local areas also need to know that many of the available data sets have serious limitations. First and foremost, it is very hard to get information on small areas. Also, some of the most important data sources are no longer a very

accurate reflection of the economy. For example, the Standard Industrial Classification system in the United States is a good example. It classifies occupations by industry, but it was developed when most people worked in manufacturing. As such, it does not provide an adequate understanding of what is now a largely service-based economy. Also, some of the best data (such as that from the census) are not collected often enough. Today for example, those data are ten years out of date in the United States. Finally, the U.S. data collection system is decentralized and therefore somewhat chaotic. Each agency has set its system up for a different purpose and as a result, they often measure the same variable slightly differently and therefore come up with different results, which can be very confusing to those who are not economists.

## **National data sources contain useful information**

That said, the following data sources contain valuable information and are a critical resource for beginning to paint a picture of a local economy.

Much of the public data used to analyze regional labor markets is produced at the national level. The three major national data sources are the Census Bureau or Agency, the Labor Statistics Agency, and the Economic Statistics Agency.

### **Census Bureau.**

The Census Bureau produces data series on:

- **.Population:** including population size, personal characteristics ( e.g., race, sex, age, educational attainment, occupation), and household characteristics (e.g., composition, income).
- **Business Activity:** including the total size of each industry, the number of companies and establishments, measures of various aspects of business operation.

### **Bureau of Labor Statistics.**

The BLS produces data series on:

- **Labor Force:** including employment, unemployment, unemployment rate, and labor force participation.
- **.Jobs and Wages:** including the following data series: Covered Employment and Wages (ES,202) which is a quarterly collection of jobs and wage data from all employers participating in the state unemployment insurance program; Current Employment Statistics which estimates job levels and hourly wages by industry; Occupational Employment Statistics which estimates the number of positions and average hourly wage by occupation by industry; National Compensation Wage Survey which presents wages and benefit data by occupation; and Mass Layoff Statistics which reports on mass layoff events, dislocated workers, and persons filing for UI claims.
- **Bureau of Economic Analysis:**  
Much of the BEA data are too sophisticated for use by most CER Teams. But CER Teams may want to look at the Regional Economic Information System (REIS) , which, in the United States, is the most comprehensive of the federal income and

employment data series. REIS can be extremely useful since it provides employment and earnings information on all workers by industry, including the self-employed.

In addition to these kinds of resources, in some countries like the United States there is a newly developed "America's Labor Market Information System" (ALMIS) is both a source of data and a labor market information intermediary.

- **America's Labor Market Information System:** ALMIS is a joint venture of the U.S. Department of Labor's Employment and Training Administration and the fifty states. Its mission is to support the emerging One Stop Career Center system with useful labor market and occupational information. But it is intended to be more than an analytic tool. It also will provide information directly to workers and employers, facilitating their access to jobs, labor, training, and career services information. Currently ALMIS includes information on the following: projected employment, wage information, training information, employer information, population and demographic data, economic data, and area cost of living profiles. Unlike other public LMI sources, ALMIS provides some firm-level information on over ten million employers.

## State and local sources of data

In addition to these major federal sources of data, there are state and local public agencies that produce LMI data as well as private sources. Some of these include:

### State and Local Government Agencies.

Many states and local areas undertake surveys of their own. A good place to start is the lead State Data Center or LMI agency. In addition to formal LMI surveys of one kind or another, state agencies can provide another important kind of data as well: these are the outcome data on employment and training programs.

### Private Data Sources.

Public data sources do not provide information on specific businesses in a local area. To get this firm data, it is necessary to turn to private data sources. There are some relatively inexpensive commercial business directories available on CD. These include: Listings Deluxe by ProCD ([www.L1rocd.com](http://www.L1rocd.com)); Phone Disc Business Pro by Digital Directory Assistance ([www.L1honedisc.com](http://www.L1honedisc.com)); and Phone Search USA 4.0 by DeLorme ([www.delorme.com](http://www.delorme.com)). Two of the best sources are the Harris Manufacturers Directory and Dun and Bradstreet.

Most CER Teams are not large enough to employ economists or other data analysts. Therefore most teams can and should take maximum advantage of the various labor market information intermediaries in their state or province.

In the United States there are three major depositories of public labor market information: the state labor market information (LMI) agency; the State Data Center; and the Federal Depository reference library. These three sources in combination will have the publicly available data that are most commonly used to analyze labor markets. For most purposes the State LMI Agency is the most useful source for labor market data.

- **State or Provincial Labor Market Information Agency.** The first and most important of these agencies for CER Teams is the provinces or state's labor market

information (LMI) agency that is frequently a part of the state-or regional-level organization responsible for employment and training. In the United States, the LMI agency is linked to the U.S. Bureau of Labor Statistics and produces a wide range of LMI products. Many state or provincial LMI agencies also employ economists knowledgeable about particular industries and regions in its state or province.

States, provinces and local areas usually have other data intermediaries including:

- College and University Business and Economic Research Centers. Usually at least one college or university in a state or province will perform this function.
- Chambers of Commerce and Industry. Some Chambers of Commerce or Industry have a research arm. These researchers are members of the National Chambers Researchers Association, which may have a web address.
- Industry Associations. For the analysis of particular industries, specific industry associations can often provide a wealth of information.

### **Step 3: Analyze the demand side**

Using these resources, and any others that can be identified, the CER Team can begin to map its local or regional labor market, beginning with the demand side. There are several subsidiary steps.

#### **Create a basic profile from available data sources**

The first step is to create a basic profile from available quantitative data and secondary statistical sources of the employer base of the region. This provides a sense of the structure of each industry (e.g., its employment base, whether it is characterized by large or small firms, average wages) and historical trends by industry.

This level of analysis does not provide much information about specific occupations within each industry, including the wages and required skills associated with each. Using other available quantitative and qualitative data can make some headway but it is important to supplement this information with primary research, especially interviews with those directly connected to firms-owners, managers, union representatives, industry associations.

#### **Identify the number and kinds of jobs offered**

The next step is to identify the number and kinds of jobs an industry offers.

All industries and all occupations are not the same in terms of the contribution they make to the welfare of the region. In general, CER Teams want to target industries that pay decent wages.

Industries also differ with respect to other measures of value, such as their regional competitive advantage (to be discussed later) and their "value added" per employee. Looking at "value added" per employee is another way for CER Teams to identify those industries and firms that bring the greatest economic return to the region and its workers.

### **Use all available Data**

A useful data source in the United States for finding value-added industries is the Economic Census, Bureau of the Census which measures number of establishments (or companies), number of employees, payroll; measures of output (sales, etc.) and other data. It is conducted every five years and is broken down into areas as small as counties and zip codes.

Finally, those with lots of experience doing this kind of research caution that it is important to be creative about data sources. For example, business magazines can provide important insight into firms and industries. Real estate market guides for commercial real estate let you know which firms are moving in and which are moving out of your community.

### **The Need for Primary Research**

In addition, however, fortunately or unfortunately much of the information CER Teams and other local stakeholders need is not available from any of these sources and can only be obtained from firms, workers, and members of the community. For example, available data tell little about the actual skills associated with a job, the hiring practices and problems of firms, what they are really looking for in a particular category of employee, how they assess their competitive challenges moving forward and what they intend to do to meet them. Also, even when published data have insight into issues such as these, they are usually outdated. Many industries are changing so rapidly that only the most up-to-date information is useful.

This is the greatest challenge and frustration CER Teams face in trying to put together a meaningful labor market profile for their region. Most CER Teams simply do not have the resources to implement a major firm survey, nor can they afford to hire someone else to do it for them.

There are lots of smaller, targeted surveys CER Teams, community-based organizations, economic development groups and others can initiate on their own to support particular policy goals and strategic interventions. These will be discussed at greater length below. But in the case of more comprehensive surveys, the best national models seem to be collaborative—for example, the state and one or more local partners and/or a set of local partners (within or among CER communities or regional areas).

## **Demand side questions about the labor market that should be asked by CER teams**

The kinds of demand side questions CER Teams should be asking about the labor market vary considerably, but they include:

- What the major industries in the area (emerging, growing, stable, and declining)? Are they service or manufacturing? Are there connections among them (i.e., are there industry "clusters")?
- Who are the major firms?
- What are the current and projected labor needs of those firms? Is labor demand growing or declining (and in each case, why)? What does the occupational structure of each industry look like? What kinds of skill needs does it have (and how many workers in each skill level)? Is this structure changing?
- What are the labor market problems of those firms? Are there specific skills shortages? Are some firms having real problems with turnover?

- What are their hiring standards and what hiring mechanisms do they tend to use? Do firms hire by word of mouth (referrals from their own workers especially)? Do they have particular screening protocols/ Do they require a specific credential or level of education?
- What does the wage structure of each firm/industry look like? Are there lots of decently paid jobs or only a few?
- Which firms/industries have internal career paths? Does the industry have natural career ladders that workers can ascend through on-the-job experience? Alternatively, do workers have to leave the industry if they want to get ahead? Do they have to return to school?
- What are the labor practices of these firms? Industries? Do firms provide full-time work? Benefits?
- If the local area is having trouble attracting industry, is the reason because of perceived problems with the labor force? If so, what are those perceived problems?

## Step 4: Analyze the supply side

The other side of the labor market-its "supply side"-is equally important to understand, that is, what does the labor force look like and how close is the match between its characteristics and the needs of the region's firms?

### Find and use available data

Good sources for information on the basic demographics of the population in a region include:

- *Population Estimates Program*, Bureau of the Census, which measures population and components of change including births, deaths and migration in an out. This program also provides annual population estimates by age, sex, race and Hispanic origin for all states and counties. It is easily accessible via the Web.
- *Current Population Reports*, Bureau of the Census (report series P20) provides data on educational attainment for states and larger metropolitan areas.
- *Decennial Census*, This report from the Bureau of the Census measures population by age, sex, ethnicity, race, marital and family status, veterans status, years of school completed, geographic mobility, journey to work, and other variables. The data are broken down into geographic areas as small as census tracts and zip codes.
- *State Governments*: Also many state governments conduct or contract for their own population surveys.

### Best regional source of information

In the United States, the best source of information on the general level of employment and unemployment in a region is the Local Area Unemployment Statistics (LAUS) Program, run by the states' labor market information agencies using national BLS guidelines.

Since the CER Team's principal concern is the economic health and welfare of its region, it is critical to know about the incomes of residents, and especially how many are living in poverty.

## **Local data sources**

There are also local data sources that can be useful in tracking poverty. For example, in the United States data from the local school system on the number of children qualifying for the free lunch and reduced lunch programs; data from the United Way or other local services agencies that may track the use of homeless shelters; and obtaining information on the current Food Stamp and Medical Assistance caseloads by area.

CER Teams also need to know which populations in their area are at-risk of being unable to find or keep good jobs. This is not a question traditional data sources are designed to answer. Although some of the data just discussed can provide important clues to this question (and the Census data are particularly helpful when it is fairly current), one good source of information for this purpose is the outcome reports from employment and training programs themselves. Unemployment Insurance wage record data can be used to track the percent of the labor force that seems to be trapped in low wage jobs over time and to trace the paths workers may take up the ladder, but wage records do not contain demographic information.

Finally, CER Teams may want to identify what constitutes a "self-sufficiency" wage for workers in their region. There are numbers of approaches, some of which will be discussed later.

## **The need for primary research**

As in researching the demand side of the labor market, CER Teams frequently find that to understand their local labor force they need to supplement the available data through research efforts they conduct (or contract for) on their own or in coalition with others. The most typical reason is because they are targeting a particular population for service, for example, dislocated workers or welfare recipients. In this case, the CER Team might both use specialized secondary quantitative information (such as data from the rapid response worker adjustment unit or state/local welfare agency) and do some actual surveying of workers or welfare recipients (perhaps through the use of focus groups). The purpose of a focus group would be to verify the information gathered through other sources, identify hidden employment barriers not revealed in that data, identify strengths of that population not evident in the data, etc.

Although most "supply side" surveys tend to be specialized and targeted, more ambitious surveys of workers in a local area are sometimes conducted. In some cases, these are not implemented by the CER Team itself but by an academic institution or professional firm that has been engaged for this purpose. Given the time and expense involved, the purpose of such a survey needs to be carefully defined in advance.

## **Questions CER teams should ask about the supply side of the labor market**

The kinds of supply- side questions CER Teams should be asking about the labor market vary considerably, but they include:

- What are the current and projected demographic characteristics of the workforce? Is the workforce becoming older or younger? What are the educational levels of the workforce? What is the traditional skill base of the workforce and how is this changing? Have there been new waves of immigrant populations? Is greater immigration projected?
- Which populations are having trouble finding or keeping jobs that pay family sustaining wages? Are there many such groups in the local area? Do they have shared characteristics or very different kinds of characteristics (as for example, new immigrants and older white collar workers)?
- Given the local cost-of-living what wage levels are required to sustain a family? Does this vary by kind and size of family?
- How are workers geographically distributed across the region? Are there pockets of at-risk populations and other pockets of high skill populations? Are some labor market problems concentrated and others dispersed? Is there a mis-match between where the jobs are and where the workers are?

## **Step 5: Map the community's assets**

In order to address their workforce development challenges, local stakeholders need to know more than the needs of their employers and workers. They also need to know what resources they have at their disposal to meet those needs.

### **Identify programs and services already in the community**

The "resource mapping" component of a community workforce development audit needs to identify programs and services already in the community, as well as new sources of funds that can be accessed to address particular community concerns.

Existing programs, institutions, and funding streams available for labor exchange, training, case management, and supportive services (such as child care, mental health, services for the disabled, services for immigrants and refugees, and so on) should all be detailed. Most local areas do not even know the range of programs provided by the partners, let alone the community more broadly.

A logical place to begin this component of the community workforce development audit is with the other CER partners. Local areas can develop a survey requesting this information, including the programs each partner funds, the populations served, and the services provided. In addition, each partner should be asked to identify additional or "discretionary" funds that local areas might be able to access, for what purposes, and how.

A more extensive survey can then be initiated to gather detailed information from the larger set of organizations. In addition to using names gathered through the first survey, the list of those covered in the second round can be augmented by using resources such as social service "yellow pages" many local communities produce, resources manuals regional or state agencies sometimes provide to their local offices, and so on.

## **Ask what “in kind” resources organizations can make available**

Community workforce development audits can have a broader reach as well. Organizations surveyed—including unions and employer organizations—can be asked what kinds of “in kind” resources they might make available—for example, space or equipment for a training program. This makes particular sense when the community audit is targeting a particular industry or set of industries.

Finally, local stakeholders should look beyond public resources in other ways as well. Philanthropic and corporate organizations often have funds available to meet targeted social needs.

## **Determine who should conduct the baseline workforce development audit**

There is nothing about a baseline community workforce development audit that is so technically complex that CER Team members could not do the research themselves. However, such an audit in a larger community could turn out to be a big job and some CER Teams may lack sufficient time or resources to do the work themselves. Therefore, in some cases CER Teams might consider contracting out some of the work entailed in both baseline and more specialized labor market audits. You should also consider joining forces with other stakeholders (either other neighboring CER Teams or other organizations within the labor market area, such as regional economic development agencies, universities or colleges, and so on) to share the cost of this kind of analysis if you decide to hire someone to do the research.

At the same time, it is absolutely critical that the local CER Team and stakeholder partnership be in the driver's seat. The partnership needs to set the goals for the research—both the broad policy goals but also their very specific needs and expectations. The CER partnership also needs to be able to provide mid-stream feedback to researchers about whether they are on or off track. And the partnership needs to know how to select an appropriate contractor. Many research organizations, both public and private, have boilerplate approaches to economic research that may not square with the needs of the CER Team. CER Teams (and their partners) therefore need to move beyond being good consumers to in a very real sense acting as the project director(s).

Finally, however, as suggested earlier, it often does make sense for the stakeholder partners to play an active role in some of the primary research that needs to be conducted, both for a baseline community audit and for more specialized audits. This primary research entails interviews, focus groups, and other direct interaction with both firms and workers. In all these instances, the research process is an important relationship-building process.

## **Supplemental resources**

The discussion of data sources in this and the following sections is largely taken from a publication funded by the Economic Development Administration of the U.S. Department of Commerce: Joseph Cortright and Andrew Reamer, *Socioeconomic Data for Understanding Your Regional Economy: A User's Guide*, 1998. That publication contains a great deal more useful

information and detail about how to find and use data to analyze a regional economy. There is an accompanying website: [www.econdata.net](http://www.econdata.net).

Another useful resource was produced by Regional Technology Strategies for the Annie E. Casey Foundation: *Using Regional Economic Analysis in Urban Jobs Strategies*, 1996. This handbook contains discussions both about how to think strategically about a regional labor market and how to analyze one.

## **Specialized workforce development audits and techniques**

A baseline community workforce development audit-particularly if the information is up-to-date-provides local stakeholders a general but useful map of the labor market and resource base in their area. But to develop targeted interventions-or even make good decisions about how best to use limited resources-they need more sophisticated and/or more specialized information.

Local communities, areas and regions have a wide range of purposes and a corresponding range of techniques for conducting community workforce development audits. Some of the most common, as well as some of the most innovative, are highlighted here.

### **1. Sector and cluster analysis**

As an analytical tool, sector analysis is the next logical step after a basic audit. This is because it provides baseline information: that is, it identifies the industries in which the region has competitive advantage. Using techniques such as shift share analysis and location quotients, local areas can determine how firms within an industry differ from those in the state or nation as a whole, whether they are more or less competitive, growing faster or more slowly, and whether they employ a greater or smaller percentage of the workforce than is the norm.

#### **Purpose**

There are numbers of reasons to identify those industry sectors that seem to have regional advantage. These include providing career information to job seekers (about which industries and occupations seem to be good long term bets), developing training programs to support those industries, and even implementing comprehensive partnerships with these sectors (described under Sectoral Strategies in the original document).

Increasingly also some local workforce development groups have begun to break down the traditional barriers between workforce development and economic development to view their economy more strategically and to employ methods that in the past were the domain of economic development agencies. It is expected that this trend will continue and pick up steam as more communities understand the relationship between workforce development and economic development.

#### **Methods and data sources**

##### **Secondary research.**

In conducting research on sectoral advantage, two useful techniques are location quotient analysis and shift share analysis. Both compare the local region to some other geographic area, e.g., the state or the nation.

**Consider using location quotient analysis.** Location quotient analysis identifies the relative specialization of a region in a particular industry, measured by some industry variable (such as employment, number of establishments, average payroll, or value-added per employee). Using employment as the variable, a location quotient greater than one would indicate that a greater percentage of the local workforce is employed in that particular industry than in the reference economy. Calculating the location quotient based on value-added indicates whether the industry is above average in productivity.

**Consider using shift-share analysis.** Shift share analysis is a method for identifying trends over time, for example, whether the local region's share of employment or number of establishments in a particular industry is growing (or declining) faster or slower than in the reference economy. As such, this technique begins to directly address the question of regional advantage and provides real insight into how the occupational structure of a region may be changing over time.

The data used for both location quotient and shift share analysis are virtually identical and can be taken from some readily available source such as County Business Patterns in the United States.

**Identify key industrial clusters.** In some cases, local areas have gone beyond sector analysis to identify key industrial clusters within their region. Usually this is when the goal of the community audit is to develop a workforce development strategy that has a clear economic development purpose as well.

By an industrial cluster, what analysts mean is the following: a geographically bounded concentration of similar, related, or complementary businesses with active channels for business transactions, communications, and dialogue, that share specialized infrastructure, labor markets, and services and that are faced with common opportunities and threats. Almost always the cluster will include both suppliers and customers. One reason local stakeholders may care about industry clusters is that firms frequently hire from their suppliers and vendors.

Identifying the spatial dimensions of employment change within a region also sometimes is very important. For example: are the key industries in the region moving from one location to another? The sources for this kind of analysis are the proprietary ones (listed both above and below).

After conducting a quantitative analysis, a useful sector study goes on to understand in greater depth the dynamics of each key industry, its competitive challenges, comparative strengths, and so on. In the United States this information has to be pieced together from a variety of sources such as the U.S. Department of Commerce Industrial Outlook, industry publications, and so on- and supplemented with primary research.

Finally, after identifying key industries within a region, a sector analysis has to move to the level of the firm- to identify the most important firms in each industry, how they are doing, where they are located, how many people they employ, etc. As described above, the data sources for this are primarily proprietary. Two of the best in the United States are the Harris Manufacturers Directory that will provide on diskette for any S.I.C. code, by postal zip (or

county or Metropolitan Statistical Area), the name of all the companies, their address, parent if any, actual employment, estimated annual sales, contact names and phone numbers. Harris will also provide customized information by company on changing employment levels. Dun and Bradstreet Information Services provide similar information on CD-ROM for a database of 10 million establishments in the United States and had on-line services as well.

### **Primary research**

Although secondary research can provide a rich overview of industry sectors, other kinds of critical information such as changing labor force requirements, occupational paths, and human resource policies can only be ascertained by surveys and/or interviews with firms themselves. Focus groups can be both efficient in gathering this information and useful in beginning to stimulate joint firm activity. This last point is important because there is growing evidence that a focus on sectors, rather than individual firms, is important in planning policies and programs (see Sectoral Strategies in the original document).

**Who should conduct the analysis?** Local CER Teams or local stakeholder partnerships with sufficient staff resources can and frequently do much of this analysis themselves although shift share analysis techniques tend to be tricky and therefore are often subcontracted to other professionals. However, as discussed earlier, it sometimes makes sense to contract out the project. An important exception here as elsewhere is the primary research, particularly interviews and focus groups with firms. .

**Who is the customer?** There can be multiple customers for this kind of analysis: job seekers, employment and training professionals, educators, and economic development staff. But because sector and cluster analysis tends to provide strategic information, it is most useful to policymakers and professionals.

## **2. Detailed occupation and skills analysis**

### **Purpose**

A baseline community audit provides insight into broad occupational trends that can be translated into broad skill trends. Frequently, however, both customers of the employment and training system and workforce professionals need more detailed information about the changing character of jobs and skill requirements.

### **Method and data sources**

#### **Secondary research**

Approaches to analyzing detailed occupational and skill requirements vary widely based on the purpose of the analysis. The best general data source on the skill content of occupations is O\*Net (the Occupational Information Network) recently developed by the U.S. Department of Labor to replace the Dictionary of Occupational Titles. O\*Net is available on CD-ROM and

diskette and contains extensive information on job requirements and worker competencies. This information includes:

- Worker characteristics: including abilities, interests, and work values;
- Worker requirements: including skills, knowledge, and instructional programs;
- Experience requirements: gauged against a standardized rating system;
- Occupation requirements: general work activities;
- Occupation specific information: specific tasks;
- Occupation characteristics: outlook and earnings;
- Related occupations.

The O\*Net system contains over 445 variables for each job title and permits comparison of skill requirements and other key job components across occupations, including identification of skill families.

Given the numbers of occupations covered by O\*Net, its extensive data on each, and the fact that the database can be searched by any one of multiple variables, it is an extremely useful resource for job seekers and counselors. By itself, however, it is not useful to local CER Teams and stakeholders who seek to identify skill trends in their areas. Nor can it provide insight into the ways the same occupation may differ in its demands across industries (e.g. an IT specialist in the banking industry may face very different job requirements than the same specialist in a dot-com company.).

Since areas cannot analyze in this way all the occupations and industries within their region, detailed job and skill analysis usually begins with a specific purpose in mind and therefore focuses on particular industries and/or occupations. With the research narrowed in this way, researchers begin with the occupational data gathered through the methods described earlier, supplemented by the skill information contained in O\*Net.

### **Primary research**

However, in general detailed job and skill data needs to be gathered through primary research such as surveys, interviews, and focus groups. If the focus of the research is narrow enough (e.g. a particular set of occupations with the health care industry in a specific region), this is not a major undertaking. Broader surveys are however.

**Who should conduct the analysis?** In the case of small-scale analyses, local CER teams and stakeholder staff (e.g. from Chambers of Commerce and their partners) could do much or all of this work themselves. More extensive analyses would be better contracted to professionals.

**Who is the customer?** Again, the customer could be individual job seekers, employment and training professionals, or educators. But in this case, the individual customer is likely to be a member of a targeted population and/or interested in a specifically targeted occupation.

### 3. Mapping career ladders

#### Purpose

One of the more disturbing characteristics of the "new economy" is that career paths are increasingly unclear to workers. One cause of this confusion is the shift from a manufacturing to a service economy where career ladders within firms have always been less well defined. Another problem is the fact that many career paths now cross firms, that is, to move up the ladder a worker needs to move from one firm to another (and, in some cases, even from one industry to another).

As such, there has been growing interest by CER Teams and other local stakeholders in developing career ladder "maps". This interest was further fueled in recent years by welfare reform efforts since it has become increasingly clear that success depends not just on finding workers an entry level job but, rather, placing them on a path toward self-sufficiency.

Career ladder mapping is, then, another kind of specialized community audit. Since not every occupation can be mapped, such efforts typically begin with a particular policy goal. One extremely good example of a career mapping effort is the one being implemented by the NOVA Private Industry Council (PIC) in Northern California.

#### Methods and data sources

In 1996, NOVA PIC- located in the heart of California's Silicon Valley- launched an ambitious career center mapping project, funded largely by private foundation funds. The policy goal of the project was to help improve the labor market success of welfare recipients who were transitioning into the labor market and other low wage workers. The "customers" of the project were both the welfare recipients and low wage workers themselves and the employment and training counselors who were providing them career guidance. The geographic scope of the project was four Bay Area counties: San Mateo, Santa Clara, Santa Cruz, and Monterey.

Before initiating their survey, NOVA not only established a clear policy goal, it also detailed key criteria for the occupations to be selected and clear objectives for the study. The criteria for selection of occupations included:

- **Demand:** There has to be a projected demand for the occupation over the next five years.
- **Wages:** Each entry-level occupation selected should provide a wage that would enable a household to gain financial self-sufficiency.<sup>6</sup>
- **Benefits:** The occupation should offer the potential to receive benefits such as health insurance, paid leave, and a retirement plan.
- **Training time:** Given TANF regulations, entry level occupations should require a training time of no more than one year. Training after employment should also be available.
- **Qualifications:** Occupations should require very little formal education.

To select the fifteen occupations they eventually profiled, NOVA researchers began with a list from the state of the 50 fastest growing occupations in California that required no more than a high school education and 6 months or less of training. Looking at absolute job growth and

wages then narrowed occupations further. Finally, the advisory group for each county reviewed the resulting list and made the final selections.

As in a "baseline" audit, NOVA researchers began with the available quantitative and secondary data on each occupation to get the lay of the land. But then they did extensive interviewing within each relevant industry. In this case also, to make the interviewing process more efficient, they conducted focus groups of employers and found that mechanism to be extremely fruitful in surfacing issues and themes across firms.

Because one of the target customers for the project was welfare recipients, the project also included interviews with workers in each of the profiled occupations. These workers were asked to describe how they got into their current position; what a typical day was like; what training and education they needed to qualify for the position and what training had been more helpful; what they like most and least about their jobs; what advice they would give someone looking for work in that field; and special qualities the job requires.

After a draft of the Career Ladders workbook for each county had been completed, NOVA held focus groups to get feedback from job counselors, community college career counselors, welfare counselors, welfare recipients and other low-wage workers. The central questions asked of these focus groups included: What in the report would be useful to you and/or your clients? What style of presentation would be most useful? What, if anything, would you like to see added? Focus group participants were particularly sensitive to issues of presentation so that the information would be compelling to the end user. The final report took this several steps further, for example, included web-based links to self-assessment tests customers could use to better evaluate their own interest in and aptitude for a particular occupation.

For each profiled occupation, the final report provided the following information:

- Skills required and legal requirements
- Jobs available at three levels of experience: entry level, 3 years of experience, 5 years of experience
- Description of the work involved
- Where to get training locally
- Wages, hours, and fringe benefits
- How to conduct an effective job search for that occupation
- Opportunities for advancement
- The employment outlook.

### **Who should conduct this analysis?**

In this example, PIC/Workforce Investment Board (WIB) staff conducted research. However, as detailed, career ladder mapping is a relatively major undertaking which in most WIB areas probably needs to be contracted to professionals. Given the expense, it also makes good sense to develop a consortium of stakeholders committed to supporting the cost of the effort and using the data.

### **Who is the customer?**

As the NOVA example makes clear, customers for this data can range from job seekers to employment and training professionals. As usual, however, the purpose of the project drives its

design. NOVA's career mapping was done with end-users in mind. Career mapping could be conducted as one step in a strategic intervention (such as the building of community career ladders, described later). In this case, both the process of the investigation and its end products would be different.

## **4. Vacancy surveys**

### **Purpose**

During World War II and at various points over the decades since, national job vacancy surveys have been conducted in the United States for a variety of purposes: as an overall economic indicator, to identify and forecast occupational shortages, to pinpoint areas of structural unemployment, and so on. Although the U.S. has not had a national job vacancy survey program since 1973, other nations routinely use vacancy data as an important economic indicator. Three sources of data are typically used: public employment service job listings, want ad listings and establishment surveys.

At the local level, the demand for vacancy data is and continues to be a more immediate and practical one. The Employment Service (ES) and other employment and training programs have sought data on job openings to guide their placement and training activities. Recently, there has been renewed interest in vacancy analysis in the light of tight labor markets and real or perceived skill shortages.

### **Methods and data sources**

Informal vacancy surveys are routinely conducted by ES offices and by and other job developers. Data sources are quite similar to those used in the more formal national surveys, though on a much smaller and less "scientific" scale. That is, they look at their own job postings, analyze local want ads, and do informal (or semi-formal) surveys of local employers.

Recently, some local areas have begun to formalize this process and take it to scale. One particularly good example is the effort in Milwaukee, Wisconsin which is funded by a local consortium of public organizations- the City of Milwaukee, Milwaukee Area Technical College, Milwaukee Public Schools, the Private Industry Council of Milwaukee, and the University of Wisconsin-Milwaukee). The University of Wisconsin-Milwaukee Employment and Training Institute (ETI) conducts the research itself. Surveys are conducted twice annually and are used in program planning, training, and policy development. An attempt is also made to assess spatial and skill mismatches within sub-areas of the analyzed labor market.

The ETI survey includes data on the following: full-time and part-time employment, the location of employment, wage rates, availability of fringe benefits, education and training requirements, and employer-identified hard-to-fill openings. Information on job titles allows researchers to identify the occupational needs of employers and the availability of entry-level positions. Job site data are useful both in locating geographic mismatches and, in the case of sub-units of large firms, ensuring that the vacancies are local. Data on minimum levels of education and training are, obviously, extremely useful to both job counselors, educators and policy makers, and fringe benefit availability helps determine the quality of the jobs.

ETI's approach includes both a mail survey and follow-up by phone. To improve response rates, the mail survey is only one page, is limited to vacancy information and new hires. Companies simply list job titles for which there are openings and ETI staff then code and categorize the occupations. The mail response rate is typically 20-25%. ETI then contacts approximately 2,000 of the non-respondents by phone.

After survey results are tabulated and weighted by size and type of industry and by response rate. Analysis is provided in the following areas:

- Profile of job openings in the metropolitan Milwaukee area
- Skill level requirements for job openings
- Wage rates by job qualifications
- Difficult-to-fill vacancies
- Availability of fringe benefits
- Location of job openings
- Shortage of jobs in the central city Milwaukee neighborhoods
- The nature of the gaps between available vacancies and job seekers.

In addition to the practical and methodological complexity of surveys such as these- and, therefore, their expense, numbers of theoretical and policy concerns about vacancy surveys have been raised over the years. Academics have worried about how the definition(s) of vacancy can skew the results and labor unions have worried that these data could be used to minimize the impact of unemployment. But because local surveys such as the Milwaukee one are being used by educators and employment and training practitioners as simply one tool in their tool chest, they have sidestepped most of these concerns.

### **Who should conduct the analysis?**

CER Teams and even ES staff frequently conduct very simple vacancy surveys. More complex surveys such as the one described require professional expertise and considerable staff resources.

### **Who is the customer?**

The customer of vacancy surveys is usually employment and training professionals, educators, and policy makers.

## **5. Identifying skills shortages**

### **Purpose**

The question of how to accurately identify skills shortages has taken on special urgency in the past ten years, as a result of rapid technological change, enormously tight labor markets, and the fact that in many labor markets new entrants are increasingly new immigrants.

In many areas, skills shortages are the single greatest barrier to economic growth. In response, the U.S. Department of Labor currently has two major skills shortages initiatives underway to help regions address this critical economic problem. The first is the Regional Skills

Partnership initiative that is providing grants to consortia of local stakeholders who have come together to address skills shortages in their region. The second is the H-1B Technical Skill Training Grant Program that provides training funds to address skills shortages in specific high skill occupations, such as information technology and health care.

## **Methods and data sources**

At the national level, attempts by countries to identify or project occupational skills shortages combine the use of vacancy surveys with techniques such as analysis of flow data, model-based approaches (using complex modeling techniques, the most sophisticated of which allow for the interaction of supply and demand), selective targeted studies of specific occupations, and consultation with employers in local labor markets.

The U.S. does not conduct a national labor turnover or vacancy rate survey. However, since the early 1960s a database of the help-wanted advertisements in 51 sample cities has been maintained. This database provides proxy measures of skills shortages through time, as well as regional information. Unfortunately, there is not occupational or industry detail in the data. Also at the national level, the BLS maintains a highly detailed occupational model for the demand side of the labor market, though there is no matching supply-side data to produce estimates of skill shortages. Some comprehensive, targeted skills shortages studies have been undertaken, most notably for scientists and engineers.

Some states have waded into the effort to identify skills needs and skills mismatches. For example, in 1992, Oregon- which has been a leader in "outcome-based" government-initiated a major "skills-benchmarking" effort, mailing a survey of industry skill and training needs to over 4000 firms. Focus groups were then held with managers and workers in over 100 companies.

The consultative structures vary considerably across the country: most are ad hoc, though some have a more permanent status. They can vary from informal breakfasts to formal committees following structured protocols. Business associations are often extremely useful partners in these efforts and, in fact, some have conducted similar surveys for their own planning and lobbying purposes.

Analysts at the local level use a variety of data collection techniques. Frequently simple one-page surveys are sent to a sample of firms. In other cases (or in combination with a survey), rounds of focus groups are held. Data may be collected on the basis of skill-types rather than occupational classifications. Because no coding system for detailed skills exists, various ad-hoc classification systems have been developed locally. Recently there have been a spate of efforts aimed at identifying shortages in information technology skills that cross industry classification.

There are numbers of serious problems local areas have confronted in skills shortage identification. Some of the most common are: 1) Separating the intensity of demand for a skill from the volume of demand- that is, local employers may insist that there is a skills crisis but on further analysis this may not be because they need hundreds of new workers in that skill or occupation; rather, the number of workers in demand is quite limited but those workers are essential to the survival of the business. This can lead to a false perception of widespread skills shortage. 2) Difficulty in projecting changes in the composition of demand- often by the time the employment and training system can respond to industry skills shortages, technology or new competitive pressures have produced a change in the number or kind of workers needed. 3) Correctly identifying the skill- employers may establish hiring requirements (for example, a high

school diploma) that inadvertently screen out qualified applicants, also producing a "false" skills shortage.

### **Who should conduct the analysis?**

Skills shortages studies can be conducted by many organizations, depending on their complexity. Frequently, however, the appropriate geographic area for such a study is quite broad and therefore it makes sense for a consortium of communities within a labor market to direct the study and for it to be conducted by professionals.

### **Who is the customer?**

Although skills shortage information is obviously useful to individual job seekers, this kind of analysis is usually conducted for broader policy and planning purposes.

## **6. The role of rapid response, job developers, and other informal methods of data gathering**

### **Purpose**

In addition to these more formal methods of labor market analysis, local areas also can use Rapid Response teams and job developers to gather specific kinds of information. The purpose of the information collected this way may be to prevent layoffs, match workforces being laid off with firms needing those skills, identify workforce development needs within and across industries, identify other firm needs and concerns, locate industry "champions" for specialized strategies, and so on.

### **Methods and data sources**

In the United States, states and local areas have different kinds of Rapid Response capacity; however, areas that have a well-staffed and active Rapid Response team often view them both as a service delivery organization and as a mechanism for gathering (and disseminating) important labor market information. In Massachusetts, for example, the Rapid Response team prides itself on placing large numbers of dislocated workers in new jobs before they are laid off from their old ones. They do this by matching downsizing firms with hiring firms in local areas.

To the extent to which Rapid Response teams capture data on the firms and workers they serve, they can also provide valuable insight into shifts in the economic fortunes of industries, changes in the composition of the layoffs over time, the ease or difficulty workers (and various categories of workers) are having reentering the labor market. Their close working relationships with firms can also help local areas separate "high road" employers from those that provide low wages and few if any benefits.

## **7. Business visitation programs**

### **Purpose**

Business visitation programs (see Chapter 8 of this volume) take this concept one step further, formalizing it as a process. These programs are essentially retention strategies. Their purpose is to keep in regular touch with local firms so that they are able to quickly identify and address firm needs and concerns.

### **Methods and data sources**

The New Hampshire Business Visitation Program (BVP) discussed in Chapter 8 is illustrative of the methods employed. Since the program's inception in 1991, 171 communities have participated and 2,470 firms have been visited. Since few towns have full-time economic development staff, the BVP operates instead with volunteer labor. Training in how to conduct the interviews is provided by staff from the state's Office of Business and Industrial Development (OBID). The survey is 23 questions long and covers a wide range of issues. After the survey has been conducted, responses are organized into a customized report and OBID staff meets with local business leaders and public sector representatives to craft a strategy.

## **Tailor workforce development audits to support CER strategies**

All community workforce development audits must be driven by a clear policy goal. Taking this one step further, there is often an iterative relationship between the development of employment and training strategies and the design of more targeted community audits. Leading-edge CER Teams and other labor market intermediaries gather data on their labor market to make decisions about what kinds of interventions should have priority and are likely to be effective. After making some initial strategic decisions, research is designed to inform and to support those strategies. Some examples of specific strategies and the kind of research necessary to support them is highlighted below.

### **1. Employing or re-employing a target population**

#### **The strategy**

Although the some employment and training legislation promises universal service, frequently CER Teams (and other public and non-profit organizations) also have reason to target specific sub-populations and devise strategies appropriate to their special needs. The target population could be dislocated hardware engineers from defense dependent high technology firms, welfare recipients, or even residents of a depressed neighborhood.

The strategy devised to address the needs of the target population may be a variant of many discussed in this chapter (e.g. sectoral, community career ladder, employer-focused training, etc). But when a specific population is targeted, special "audits" need to be conducted of

both the demand and supply sides of the labor market. It is also critical to investigate special community or governmental resources that might support the needs of this population.

### **Tailoring the audit**

On the demand side, firms and/or sectors need to be identified that are likely to hire the targeted population. Interviews and focus groups need to be held with prospective employers to identify problems and potential solutions.

On the supply-side, the first step in the analysis is to gather whatever quantitative data are available. In the case of dislocated workers, this data could come from Rapid Response teams, One Stops, local ES offices, and even the downsizing companies. For welfare recipients, social service agencies may be the best source. In the case of targeted communities, a community profile can be compiled using data from the Census (including PUMS information), the local city or county planning department, office of community development, and/or regional Housing office. Local foundations and school districts may also have statistics on community characteristics.

Regardless of the kind of population, however, it is important to supplement this secondary data with interviews (probably in the form of focus groups) with members of the targeted group. The kind of information that can be gathered this way includes: their job search methods, knowledge and expectations, specific needs and barriers to employment. Such primary research also may identify further areas of investigation, such as the availability of transportation or childcare.

On the basis of this information, a special review of available community resources needs to be conducted tailored to the needs of the targeted workforce.

## **2. Sectoral strategies**

### **The strategy**

Interest in developing strategies aimed at groups of firms, rather than single companies, began in the field of economic development but has made its way over the past decade into the workforce development arena. As used by practitioners, the term "sector" tends to variously mean a grouping of industries, a single industry, a subdivision of an industry, or even a set of industries that share some critical need or characteristic. In general sectoral strategies entail targeting a set of employers that share a set of common characteristics, such as a common market, common product, or basic resource needs (such as labor force, infrastructure, or technology).

The idea of a sectoral intervention is to work with groups of firms to a) address a public policy concern and, at the same time, b) solve one or more common problems that the firms share. In the employment and training field, for example, a local area might target the health care sector to a) employ hard-to-place former welfare recipients and, at the same time, b) solve a labor shortage problem for the industry.

Much of the pioneering work in sectoral intervention in the employment and training arena has been located in the non-profit sector, funded largely by foundations. Labor organizations have also been innovators in this field.

All these efforts have had a clear economic development as well as workforce development focus and often have been aimed at low-income workers and communities. For the

past several years, however, there have also been a growing number of public sector sectoral interventions, including both state-funded projects and dislocated worker demonstrations funded by USDOL. In these very different efforts, the role of the public sector has ranged widely, including funder, initiator, facilitator, oversight, market maker, regulator, and implementer.

Many sectoral efforts have been relatively modest in scope, such as targeting a subset of the health care industry in a local area. However, there have been some that have achieved real scale and impact, as the following examples suggest.

- In Delaware, a statewide initiative targeted the financial services industry as critical to the state's economic future. Bank officials, state officials, educators, employment and training professionals joined forces to develop and coordinate training programs for entry-level and incumbent workers.
- In Milwaukee, the Wisconsin Regional Training Partnership, founded in 1992, has a membership of more than 40 firms which together employ over 40,000 workers. WRTP is a state-supported tripartite partnership between management, labor, and government based in the metal working industry. Although it has a broader agenda, much of its focus is on workforce development, skills training, the development of skills standards, and the like.
- In New York, the Garment Industry Development Corporation (GDIC), a non-profit institution established in 1984 by a union, two garment trade associations, and the City of New York, now broadly serves the workforce training, marketing, technology assistance and other special needs of New York's many small garment shops. Industry sponsorship has grown to five trade associations and public sector support has deepened.

Many of the other specialized strategies described below build on the sector approach.

### **Tailoring the audit**

The decision to implement a sector initiative is a serious one since, to be successful, it requires considerable effort and resources from both the public and the private sectors over many years.

Minimally then, sectoral strategies necessitate careful, in-depth sector (and perhaps even cluster) analysis of the targeted economy. Final sector selection depends on the project's policy goals.

Second, however, this kind of strategy dictates employment of some of the other kinds of techniques and tools described earlier, for example, career ladder mapping and detailed job and skill analysis. More than in the case of traditional employment and training strategies, sector approaches require a sophisticated understanding of the competitive dynamics of the industry, the organization of production, and the ways in which the workforce can be either an asset or a liability. Primary research must be emphasized over secondary research.

As such, sector approaches both depend on in-depth industry analysis but they also help the employment and training community acquire the specialized expertise necessary to work closely and effectively with firms. As a result of the on-going ties with industry they develop, sector interventions provide the long-term public-private linkages that allow for regular updating of labor market information.

### 3. Layoff aversion strategies

#### The Strategy

Historically, the employment and training system spent more time responding to layoffs and closings than preventing them. But with the implementation of the Workforce Investment Act in the United States and with the growing sophistication of Rapid Response efforts around the country, there has been new interest in layoff aversion.

#### Tailoring the Audit

Layoff aversion strategies differ significantly in their approach and, therefore, in the kinds of information they demand. Strategies include the following:

- Development of an early warning network to better monitor and predict major layoffs and closures;
- Rapid retention strategies aimed at preventing an announced layoff or closure;
- Sectoral strategies of the kind described earlier aimed at improving the competitiveness of an industry;
- On-going retention strategies that provide support and various needed services to firms, including customized and incumbent worker training, business visitation programs, manufacturing modernization programs, and so on.

Although these strategies are quite different, all require that the local stakeholders implementing them understand their economy and the workings of the firms within it much more intimately than is usually the case. To set up an effective early warning system, for example, it is necessary to know what kinds of danger signs to look for, how firms make business decisions, and how business activity can be monitored. (See Chapter 7 for more information about layoff aversion strategies using rapid response and early warning systems.)

Alternatively, in the case of rapid retention strategies- such as employee buy-outs- it is necessary to know how to identify firms that are likely to survive and be competitive. Although specially trained professionals must do much of this analysis, rapid retention teams need to have a solid understanding of the kinds of firms and industries that flourish in their region and an ability to broadly evaluate the economic health of the firm in question.

Sectoral strategies were described earlier but when such an effort has a clear economic development focus, it is particularly important that the business dynamics of the industry are closely examined.

In addition to requiring a deeper understanding of the demand side of the labor market, effective layoff aversion strategies necessitate specialized reviews of community resources. In particular, local stakeholders that seriously undertake these efforts find that they have to know and forge relationships with organizations with business and economic development expertise. These might include: state and local economic development agencies, industry associations, unions, private and non-profit consulting organizations (such as those that specialize in employee buy-outs), lending organizations (both public and private), the local manufacturing extension program, the local Small Business Administration program, programs aimed at business in local universities and colleges, and so on.

## **4. Employer focused training**

### **The strategy**

Over the past thirty years, states' interest in and experience with employer-focused training has grown dramatically. It has been estimated that state spending on these types of programs rose to approximately \$600 million in 1999, almost twice the investment of a decade ago. More recently, USDOL has funded a series of incumbent worker demonstrations, almost all of them aimed at layoff aversion. Also, in a dramatic reversal of policy from previous federal employment and training legislation (i.e., JTPA), the new Workforce Investment Act permits states and local areas to use their federal employment and training dollars for incumbent worker training.

There is an important difference between employer-focused training and incumbent worker training. In employer-focused training the firm is the primary or at least co-equal customer and the training- whether of new entrants or incumbent workers- is tailored to meet the needs of the employer. Incumbent worker training, when it occurs in this context, is employer-focused; but incumbent workers can also be trained as individuals without reference to the needs of their employers (as, for example, if a local area provided Individual Training Accounts to the "working poor").

### **Tailoring the audit**

Employer-focused training is, by definition, customized training-similar to Quick Start Training used as part of USDOL/WSI Adjustment Projects in CEE countries. Programs can be customized to the requirements of a single firm or a group of firms with similar needs. As such, employer-focused strategies necessitate a specialized provider inventory. The institutions and organizations that provide training for most employment and training programs frequently are unable to meet the special requirements of employer-focused training. Specialized training requires specialized providers, often smaller and frequently private. Alternatively, employer-focused training programs require training agencies and other local stakeholders to work with different actors within the familiar institutions (for example, with the business and industry division of a community college). Workplace-based programs are particularly demanding in terms of the level of customization they require.

Workplace-based programs also require more detailed information about the firm than any other kind of training program. This is both because such programs usually have firm specific as well as "transferable" components and because the training has to accommodate itself to the production process and schedules of the firm. These programs also require a high level of buy-in by all the stakeholders in a firm. The most effective approach to obtaining the necessary information is interviews with stakeholders throughout the firm, including frontline workers, frontline supervisors, senior managers, and the union.

## 5. “High road” strategies

### The strategy

"High road" strategies are conscious efforts by local areas to target firms, occupations, and industries that will contribute most to the economic health of the region and offer workers decent wages and working conditions. As such, all firms, industries, and jobs are not evaluated as equally valuable and, in fact, some are deemed not to be worthy of public support at all.

One form this strategy is now taking is that some training agencies in the United States are refusing to issue Individual Training Account vouchers for occupations that do not meet their criteria. Similarly, these agencies are reserving state and federal incumbent worker training dollars for targeted industry sectors.

### Tailoring the Audit

Earlier, examples were given of methods local areas can use to measure and compare an industry's value-added and wages. However, areas pursuing "high road" strategies are forced to delve more deeply into the employment and human relations practices of industries and also develop some independent standard of what constitutes a self-sufficient wage for workers in their region.

In the former case, much of the research is qualitative and primary. Surveys and interviews can be conducted with labor unions, industry associations, and companies themselves. In the latter case, several efforts are underway across the country to develop methods and tools to calculate self-sufficiency standards. All are more relevant to current conditions than the outdated, traditional poverty measure used by the Census Bureau. One of the most ambitious 13 takes into account both regional differences in the cost of living and the needs of families of different size and composition. Many local areas interested in establishing standards have implemented this or a similar survey.

For more information on "high road" strategies see the High Road Partnerships Report prepared by the AFL-CIO's Working for America Institute and funded by the USODOL. It is available through the USDOL/ WSI National Adjustment Project Office.

## 6. Community career ladders

### The strategy

The community career ladder concept takes the notion of career mapping one or several steps farther into the demand side of the labor market. Rather than simply mapping existing career ladders, the idea is to identify cross-firm or cross-industry skill progressions and then link firms (either through a firm network or through a labor market intermediary) to facilitate the movement of workers from lower level jobs to higher ones. USDOL has funded one or more demonstration project using this model. One effort worth highlighting is the Dane County Wisconsin Community Career Ladder project.

## **Tailoring the audit**

The Dane County (Wisconsin) Community Career Ladder Project is one of many efforts sponsored by the Dane County Economic Summit Council (ESC), a blue ribbon commission created by order of the County Executive in 1995. The ESC is comprised of leaders from business, labor, government, education and non-profit institutions and its mission is to develop a strategic vision for economic and workforce development in Dane County.

As an initial step toward its goal of creating jobs with a future, the ESC conducted a feasibility study of the community career ladder concept. The methodology began with identification of major local industries. As described in the baseline community audit section of this report, industries were identified that were particularly consequential to the region due to levels of concentration, levels of employment, rate of growth, and so on. Given the Commission's concern with low wage, low skill workers, opportunities for entry level workers was also an important selection criterion.

Guided by the Commission and the results of this analysis, three to four industries were then selected. Consortia of firms within each of the selected industries were created and skill maps were developed using, whenever possible, national skills standards adjusted for local differences.

These skills maps were used in two ways. The first was to link dead-end jobs to those with greater income and career potential. In order to do so, there had to be a payoff for both the lower tier firms and the higher tier ones. As such, in looking for appropriate lower tier firms, researchers considered variables such as high turnover. These firms were matched with those that had jobs the next step up the hierarchy.

In some cases, this next step was simply certification by the first employer that the worker had characteristics such as stable work history, responsibility, ability to communicate effectively, to work with co-workers and customers, and so on. In other cases, further skill acquisition was required for the worker(s) to make the step up. Here, skill maps were used as the basis for curriculum development.

## **7. Skills strategy**

### **The strategy**

This kind of skills mapping overlaps with efforts to develop skills standards. The notion of using skills standards to create clearer career paths, as well as to provide firms with a more useful way of assessing applicants, has been championed by many nationally and USDOL has launched a major skills standards project. In general this kind of approach requires more resources and more global consensus than is possible for a local area. However, as just described, local areas are usually experimenting with skills standards in the context of a particular sectoral strategy.

### **Tailoring the audit**

In these local cases, the kinds of standards developed are essentially agreements among firms to recognize a credential or training program as meeting their hiring or promotional standards for workers in a particular occupation. The process of reaching this agreement generally can include surveys and focus groups, generally followed up by the specific work of designing a training program

## APPENDIX 1

# AN OVERVIEW OF COMMUNITY WORKFORCE DEVELOPMENT AUDITS

The type of community audit a local area will launch depends above all on the goals of the stakeholder partnership that initiates it. This is a quick overview—in table form—of community audits tailored to different strategic goals.

These Charts were prepared by Workforce Learning Strategies for the USDOL, Employment and Training Administration, Office of Adult Services, August 2000.

## TYPES OF COMMUNITY WORKFORCE DEVELOPMENT AUDITS

AUDIT TYPE	Purpose	Methods and Data	Conducting the Analysis	Customers
<b>Baseline Audit</b>	Provide a basic lay of the land about both the demand and supply sides of the labor market and the employment and training "resource base".	<ul style="list-style-type: none"> <li>Goals and geographic scope need to be established in advance. In general, it is best to profile an <i>economic</i> region.</li> <li>The first step is to create a basic profile using available quantitative data.</li> <li>Supplement with primary research to ensure timeliness and fill in holes.</li> <li>In the case of the</li> </ul>	<ul style="list-style-type: none"> <li>In most cases, WIBs do not have the staff resources to conduct themselves so should contract out.</li> <li>It is useful to have partners in this kind of project (e.g. a number of WIBs within a region or multiple organizations within a WIB area or both).</li> <li>WIBs and their partners need to clearly drive the project and establish its goals.</li> <li>Often useful for the WIB to be involved in some of the primary</li> </ul>	<ul style="list-style-type: none"> <li>Individual customers and career counselors</li> <li>Policymakers and practitioners (workforce development, economic development, educational)</li> <li>Other stakeholders (e.g. unions, community-based organizations)</li> </ul>

		employment and training "resource base", begin with the required WIA partners.	research since this process builds relationships.	
AUDIT TYPE	Purpose	Methods and Data	Conducting the Analysis	Customers
<b>Sector/Cluster Analysis</b>	Identifies the industries and business clusters in which a region has competitive advantage and/or are critical to maintain in the local economy.	<ul style="list-style-type: none"> <li>• Techniques such as shift share analysis and location quotient analysis can identify critical industry sectors.</li> <li>• Additional research is needed to pinpoint the related businesses (including suppliers and customers).</li> <li>• The spatial dimensions of key sectors are important.</li> <li>• Analysis of the competitive dynamics of each industry requires qualitative and primary research.</li> </ul>	Same as above.	There can be multiple customers for the information, including job seekers, employment and training professionals, educators, and economic development staff. But this information tends to be <i>strategic</i> , as such it is particularly useful to policymakers.

<b>Detailed Job and Skill Analysis</b>	To provide detailed information about jobs and skill requirements, including changes over time.	O*Net is a useful data source but must be combined with other secondary and primary sources.	Small-scale surveys can be conducted locally by WIBs. Large ones should be contracted to professionals.	Depending on the purpose and method of the analysis, the information is relevant to most stakeholders, including individuals.
<b>AUDIT TYPE</b>	<b>Purpose</b>	<b>Methods and Data</b>	<b>Conducting the Analysis</b>	<b>Customers</b>
<b>Mapping Career Ladders</b>	To help employment and training customers and professionals understand career paths.	<ul style="list-style-type: none"> <li>• Occupations to be mapped must be selected.</li> <li>• Quantitative and secondary data are reviewed.</li> <li>• Extensive interviewing within firms (often including focus groups).</li> </ul>	<ul style="list-style-type: none"> <li>• Smaller efforts can be conducted by WIB staff.</li> <li>• In general, however, this is a big project. As such, it is useful to form a consortium of stakeholders to fund and direct it and use a professional organization for the research and analysis.</li> </ul>	<ul style="list-style-type: none"> <li>• Individual customers and career counselors</li> <li>• Policymakers and practitioners (workforce development, economic development, educational)</li> <li>• Other stakeholders (e.g. unions, community-based organizations)</li> </ul>
<b>Vacancy Surveys</b>	To provide data on job openings, skills shortages, areas of structural unemployment.	<ul style="list-style-type: none"> <li>• Employment service jobs listings;</li> <li>• Want ad listings;</li> <li>• Firm surveys.</li> </ul>	<ul style="list-style-type: none"> <li>• Job developers and others routinely conduct informal vacancy surveys.</li> <li>• Sophisticated surveys require significant expertise and resource.</li> </ul>	<ul style="list-style-type: none"> <li>• Employment and training professionals;</li> <li>• Educators;</li> <li>• Economic development professionals;</li> <li>• Policymakers</li> </ul>

<b>Identifying Skills Shortages</b>	To identify serious occupational skills shortages.	At local levels, firm surveys are used, followed by interviews/focus groups.	It usually makes sense for a WIB to contract this work out.	Although information is useful to individuals, surveys are usually conducted for broader policy and planning.
<b>AUDIT TYPE</b>	<b>Purpose</b>	<b>Methods and Data</b>	<b>Conducting the Analysis</b>	<b>Customers</b>
<b>Business Visitation Programs</b>	Are primarily for purposes of business and job retention.	Entails a formal method for regularly surveying area firms.	Conducted by employment and training and/or economic development professionals and even citizen volunteers.	Employment and training and economic development professionals and policymakers primarily use this information.
<b>Rapid Response and Other Informal Methods</b>	Can be employed for a variety of purposes, e.g. layoff aversion, rapid re-employment of workers being dislocated, identifying workforce development needs	Can include informal information gathering and the collection of more formal data.	Rapid Response Team, Job Developers, Economic Development Staff, and so on.	Employment and training, and economic development professionals and policymakers primarily use this information.

	across firms and industries, identifying other firm needs, etc.			
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## Appendix II

# **TAILORING COMMUNITY WORKFORCE DEVELOPMENT AUDITS TO SUPPORT LOCAL STRATEGIES: SOME EXAMPLES**

<b>SPECIALIZED STRATEGIES</b>	<b>Purpose</b>	<b>Specialized Information Needed</b>
<b>Employing/Re-Employing a Target Population</b>	To employ or re-employ a particular group of workers, e.g. hardware engineers from a defense dependent firm, welfare recipients, residents of a depressed neighborhood.	<p>The information needed will depend on the strategy or set of strategies employed (such as some of those listed below). In all cases, however, it is important to know:</p> <ul style="list-style-type: none"> <li>• On the demand side: which firms and sectors are most likely to hire the target population, their issues and problems, potential solutions.</li> <li>• On the supply side: as much information about the target population as possible, obtained both from available data and focus groups.</li> <li>• In terms of resources: identification of community resources available to meet the special needs of the target population (such as childcare, transportation, mentoring, mental health, etc.)</li> </ul>
<b>Sectoral Strategies</b>	Sectoral strategies work with groups of firms to a) address a public policy concern, but at the same time b) solve one or more common problem that the firms share.	<ul style="list-style-type: none"> <li>• In-depth sector (and even cluster) analysis of the regional economy.</li> <li>• Frequently also the particular problems addressed require use of some of the other kinds of specialized profiling techniques such as career ladder mapping and job and skill</li> </ul>

		analysis.
<b>SPECIALIZED STRATEGIES</b>	<b>Purpose</b>	<b>Specialized Information Needed</b>
<b>Layoff Aversion Strategies</b>	<p>To retain businesses and jobs in the region. Can include:</p> <ul style="list-style-type: none"> <li>• Early warning system;</li> <li>• Rapid intervention strategies when closing/layoffs are announced;</li> <li>• Sectoral strategies aimed at improving industry competitiveness;</li> <li>• On-going retention efforts including customized training, business visitation programs, modernization programs, etc.</li> </ul>	Information requirements vary depending on strategy but all are based on a more in-depth understanding of the dynamics of the local economy and the workings of firms than is usually required of employment and training professionals, including firms' competitive position, how they make business decisions, how business activity can be monitored, how to broadly evaluate the economic health of a firm/industry.
<b>Employer-Focused Training</b>	To improve firm competitiveness and the productivity/employability of its workforce. The immediate goal can also be either business attraction or retention.	Program must, by definition, be customized and therefore require in-depth analysis of needs of the customer firm(s). As such, this also requires a provider inventory since many providers cannot meet firms' needs.
<b>"High Road" Strategies</b>	Ensure that public funds target industries, firms, occupations that provide the most "value-added" to the community in a variety of ways, including decent wages and working conditions.	Entails delving into employment and human relations practices of industries and firms and the development of independent standards of what constitutes decent wages and working conditions.

<b>Community Career Ladders</b>	To identify and/or create cross-firm or cross-industry skill progressions and then link firms to facilitate the movement of workers from lower level jobs to higher level ones.	Based on quantitative and qualitative analysis, specific industries and firms must be selected. Skills maps need to be developed.
<b>SPECIALIZED STRATEGIES</b>	<b>Purpose</b>	<b>Specialized Information Needed</b>
<b>Skills Standards</b>	To create clearer career paths and provide firms with a common method for assessing the skills of workers for hire and/or promotion.	Requires firms to identify skills needs and reach agreement. Methods include surveys and focus groups.



## Chapter 12

# Use Quick start training to improve enterprise competitiveness and create jobs

### Training workers for reemployment and competitiveness

A critical element of successful enterprise restructuring and economic renewal is obtaining and retaining workers with the skills and expertise necessary to make privatized enterprises competitive globally and attract new enterprises to a region or local community.

But how are workers going to get the necessary skills to make a community's businesses competitive? Furthermore, how are the workers unemployed by mass layoffs and plant closings going to get the skills required by new employers? There is no definitive solution to either of these problems. Some training experts say technical training is the answer, but many business critics condemn it as unmeasurable and unmanageable, particularly if it occurs in isolation from the business community and not linked to a job.

Many of the countries in Western Europe and North America have developed a variety of programs to meet the skill training needs of workers and businesses. The most successful programs link the concerns, needs, and resources of the workplace with the training and educational capabilities of the technical and vocational training systems.

A large number of U.S. state and local governments include training partnerships between technical training institutions and industry in local economic renewal strategies. Recently, countries in central and eastern Europe began using training partnerships to provide specific skills and upgrade training to unemployed workers to help them get jobs in privatized enterprises and start up enterprises and to give them and their supervisors the specialized skills to increase the international competitiveness of their firms.

Recent studies evaluating the effectiveness of Active Labor Market programs being used in Poland and Hungary were carried out for the World Bank, U.S. Department of Labor and Ministries of Labor in these two countries. The study of Poland concluded that "short-term [modular] skill focused training was most effective and there was some evidence that retraining provided by private firms was more effective".<sup>1</sup>

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<sup>1</sup>Christopher J. O'Leary, *Evaluating the Effectiveness of Active Labor programs in Poland*, W.E. Upjohn Institute for Employment Research, April 1998, p.xv, p. 57.

Two successful examples of the newer types of short-term modular training programs for economic renewal; and competitiveness used in the United States, and recently introduced into Central and Eastern Europe by the U. S. Department of Labor, are the “Quick Start” and “Custom Fit” training programs.

### **Quick Start and Custom Fit training programs**

Quick Start and Custom Fit are short-term training or retraining programs that are specifically designed for a new, expanding or restructuring company that must retrain its work force because of changing products, technology or production processes. The Quick Start methodology introduced in Central and Eastern Europe was derived from the successful Custom-Fit type training programs developed in the United States.

Quick Start and Custom Fit training programs:

- result in job creation
- attract new companies to a community or region
- keep companies from moving from a community or region
- increase productivity for an existing or restructured company
- are demand driven for small businesses

Quick Start and Custom Fit training programs respond to specific industry needs. They must be custom-tailored to fit the needs of the client company.

Successful training programs require such key elements as:

- clear communication among industry personnel, the local labor office and the training provider
- excellent, flexible instruction
- administrative support
- careful and thorough planning of each cooperative effort

The training provider must acquire specific information about the client company’s operations, products, and customers. The provider must also know the legal, social, economic, technological and demographic conditions relating to the company and the region.

The training must be short, focused and intensive. Short training schedules mean that an enterprise receives a quicker return for its investment, as do employees and the agency providing the financial resources.

Quick Start and Custom Fit training programs for new, expanding and restructuring enterprises are usually supported fully or in part by government funds. In many cases, costs are shared by more than one government agency and also by the company involved. Elected officials are more apt to provide funding under one of the following two circumstances:

1. The potential cut back or closure of an employer of a large number of the workers in a region.
2. The potential for a substantial increase in employment of the region’s workers by a foreign company or a domestic enterprise that is considering relocation.

Funding for Quick Start and Custom Fit training programs is an investment that improves the quality of life and can be recovered in the form of increased wages, an improved economy, and additional taxes from both an enterprise and its employees.

In Central and Eastern Europe Quick Start training programs are usually started when a partnership is created between the country's Ministry of Labor/National Employment Service, (one or more vocational training institutions might be an additional partner) and a USDOL/WSI Industrial Adjustment Project. These partners come together to implement business retention and worker adjustment components as part of bilateral or multilateral technical assistance programs to facilitate economic restructuring.

## **“Quick Start” Training Program**

### **Introduction of Quick Start training in Central Europe**

According to business, labor and government leaders, the Central and Eastern European economies must attract new companies and assist existing companies in their modernization efforts to remain or become competitive in world markets and to provide job opportunities. Unfortunately, in the mid-1990s these countries' vocational training systems lacked the capability to directly provide assistance to companies (business and industry) in training workers for specific jobs and to develop positive attitudes and skills for quality and productivity.

For these reasons, beginning in 1995 the U.S. Department of Labor (USDOL) began to introduce the Quick Start program in the region. The Hungarian Ministry of Labor asked for assistance to develop and implement a technical assistance program ” in their regional Vocational Training Centers and County Labor Offices. Quick Start was designed to give them the capability to assist companies to screen workers, to provide job specific skills training, and to develop the attitudes and knowledge necessary for high quality products and services.

During 1995 and 1996 the USDOL Quick Start advisors went to Hungary to assist the Hungarian Ministry of Labor to accomplish its objectives in three areas:

1. Provide job specific training to meet the identified needs of a business or industry that are required to establish new operations, expand existing operations, or modernize equipment or production methodology to help them remain or become competitive in the world market.
2. Establish a close working relationship with industry, business and the general public to increase the relevancy of vocational training in Hungary.
3. Develop workers' attitudes and skills to improve the quality of the products and services they produce or provide

USDOL-recruited training advisors, working cooperatively with the Hungarian Ministry of Labor staff, began teaching the staff of regional Vocational Training Centers the techniques of training needs analysis, job and task analysis, scheduling, instructional planning, and program implementation. The training centre staff then developed and provided specialized and skills training for displaced or unemployed workers requested by the local individual industries and businesses that are restructuring, privatizing, or entering new markets. Within the next three years Quick Start was introduced in three other CEE countries using a similar process of partnership with the National Employment Service's Training and Retraining programs. Each

Country customized the Quick Start program to meet its countries needs. As an example, Bulgarian's Quick Start began with the concept of institutionalization within the National Employment Service. All Training over a two year period targeted building the capacities of the NES staffs. Regional staff were trained in the Quick Start methodology as well as trained to be trainers to sustain the program within the system. One Hundred and twenty two local office staffs are experts in job analyses and business recruitment. In Macedonia's Quick Start program the program has been highly successful building on public-private partnerships using the DOL project staff as experts.

## **Objectives of Quick Start**

The objectives of the "Quick Start" program are:

- To create an awareness in industry and business of the services that the training center can provide under the "Quick Start" program.
- To provide the necessary training in the methodology of conducting job specific training for a business or industry to one or more persons designated in each of the locations.
- To develop the knowledge and technical skills necessary to perform job and task analysis by one or more persons in each location.
- To assist an industry or business to develop a training plan to meet specific training needs.
- To develop the ability to transform job and task analysis data into a training plan in one or more industries at each site.
- To develop a systematic approach to setting up and conducting job specific training programs.
- To train instructors to effectively conduct job specific training programs.
- To assist a company to organize and implement job specific training program.

## **How the Quick Start Program works**

The Quick Start program is designed to prepare workers for immediate employment in new jobs if they are unemployed or to upgrade their skills to retain their jobs as employers introduce new technology. The Vocational Training Centers in partnership with the National Employment Service (NES), the private small businesses Ministry of Labor, and the U.S. Department of Labor cooperate in providing the training program. The funding is provided by the U.S. Agency for International Development and or the government.

Before Quick Start training can be conducted in a region, an agreement must be reached on the nature and extent of the program by the DOL project manager, representatives of the Ministry of Labor, and representatives of the participating companies or the local Business Council. It is essential training staff are "volunteered" to become Quick Start experts, building an institutional capacity within the country

The Local Labor Office is responsible for recruiting and screening Quick Start applicants from among the unemployed as well as recruiting and screening targeted businesses. If the

program allows, a selected company is responsible for selecting existing employees from within the company for worker skills upgrading. The final selection of unemployed trainees is a cooperative effort by the local Labor Office and the company.

The Quick Start training program is designed by the USDOL advisor/consultant in consultation with all partners. The training is very specific for the company and for the job. It is based upon a precise analysis of each job for which training is to be done. First, a training needs analysis is carried out on each job on-site in the company by the USDOL advisor and partner representatives, assisted by the company representative. The analysis identifies each task a worker must do, how it is done, what the worker must know to do the job, and possible hazards and safety requirements for each task. Based on these findings, a manual is prepared containing the results of the training needs analysis and setting out the specific elements of the training to be provided for each job. The instructors are given a short training course so that they understand the objectives of the program and how to use the analysis information.

Theoretical classroom training is done first. Orientation to the company is a part of this training. Practical work training is done in the company in an actual work setting. Company personnel teach this part of the training, per the training design. In most countries the use of country vocational training and retraining funds can only be if the program is for the unemployed, and there is a contract for full employment once the training is complete. In most cases the company agrees to employ all the trainees who complete the program and are suitable for employment.

Using this Quick Start training methodology, pilot projects were successfully completed in Hungary, Macedonia, Bulgaria and Poland. Hungary had the first pilot projects. Bulgaria expanded upon Hungary's experience to target marginalized populations and pilot Quick Start in untraditional occupations such as social work. Illustrations show how adaptable the 'Quick Start' training program is in facilitating market economy development, generating employment, and contributing to successful privatization and increased competitiveness.

## **Training unemployed workers to work in a poultry Processing plant in Kisvarda, Hungary**

This project was a joint effort among the Regional Training Center at Nyiregyhaza, the County Labor Office, and the Hajou Bet Company, a food processing company that processes chickens, rabbits, and geese. The County Labor Office recruited and screened 230 people, and 75 were selected to begin the training program on March 27, 1995; 73 persons completed training programs and 61 persons were employed by the company. Of the remaining 12, two found other employment and nine were judged not suitable for employment because of excessive absences during the training period and other reasons, and one person was found to have a health problem which rendered him unsuitable for employment in the company.

Of those available for employment, 61 of the 70 (or 87 percent) were employed. These employees are paid the normal salary for their job.

The monitoring of the program and communications among the three partners has been excellent and continuous.

From March to September 1995, production at the company increased by 20 percent and the quality improved. The company stated that the project was very worthwhile to them. They were very pleased with the work of the regional Vocational Training Center and the County Labor Office and will continue a close working relationship with them. Twelve of the trainees have

been selected for additional training and for higher-level jobs. All three partners are very complimentary of the assistance and training provided by the U.S. training consultant.

Because of the well-designed training and improved quality, the processing plant is capable of exporting poultry to the markets of the European Union. The Kisvarda Quick Start Training Program has been judged a success and is a positive example to other businesses and workers in the region.

## **Training of Regional Labor Office staffs to train unemployed workers for employment as “woodworker”, “Grinder” and “Faience Specialist” : within the Regions of Gabrovo, Lovetch and Pleven**

As a result of the successful Quick Start projects in local employment offices around Bulgaria, the regional labor offices in Gabrovo, Lovetch and Pleven asked for a joint training to build within their regions the Quick Start program, to maximize training funds and learn for each other. The focused training trained selected Regional Labor Office Staff to be Quick Start trainers while actually implementing Quick Start training. The staff trained unemployed to be construction specialists in wood flooring and tile workers ( Faience Specialists). The training was funded by USAID through the DOL/WSI PLEDGE project. The US Quick Start expert spent one-week training 11 regional staffs along with other Bulgarian Regional Staffs in basic Quick Start methodologies and Train-the-trainer techniques. Then later in the year the US expert returned and implemented a two-week practical training for these regional staffs. The expert provided coaching while the labor office staffs trained construction workers in specific tasks for constructing wooden floors and tile work. This training and application of the training while learning assured the development of Quick Start knowledge and skills and was the foundation for institutionalization of the program in these three regions.

A training manual was prepared and the practical training implemented for 20 unemployed workers in wood and tile construction skills for the Construction Company ET Bor 76. As results of this innovative training of trainers and unemployed workers the eleven consultant-analyzers are able to implement and train others in the Quick Start program. As a result of this unique training, 20 unemployed workers are fully employed with private companies working in construction. The Regional Training Center of Gabrovo have staff able to create a supportive Quick Start training environment and provide basic job analysis. A partnership was formed with the Regional Training Center, the three Regional Labor Offices and the construction businesses in the area.

By 2001 The Quick Start program was totally sustained within the Bulgarian National Employment Service with funding from the Bulgarian National Budget. There are 16 Quick Start experts who continue to build their skills and knowledge and transfer that Quick Start expertise by offering training around the country by 2002 over 1196 unemployed had been trained and employed using the Quick Start technology.

## Macedonian Quick Start Programs

Following is an excerpt from a radio interview conducted by PRISMA project staff (Romela Popovic Trajkova) speaking on the Macedonian Radio, Radio Skopje, Educational Program, 5 March 2003. The purpose of the interview was to discover more about the PRISMA program and specifically the Quick Start Component.

Speaker: Is it time to undertake the following steps? We are stepping together on the Macedonian Radio, Radio Skopje waves. The educational program is beginning. Welcome from me Jelena Stamenkovic.

Education is a significant segment of the overall social life and is not immune to changes. Since 1998 the implementation of the PHARE Program on Secondary Vocational School reform has been implemented in Macedonia. In this edition of the educational program we will be talking about the PRiSMa Project, supported by the United States Agency for International Development, the Consulting House Worldwide Strategies and the US Department of Labor. The primary mission of the project is get Macedonia Back to Work. The first question is my guest Romela Popovic, PRiSMa Project Coordinator.

Romela: PRiSMa Project is a project of the United States Department of Labor supported by the US Agency for International Development. The project has been implemented in Macedonia since 1999. The essence of the project is the introduction of methods which have given proven results in other countries in Central and Eastern Europe, in Poland, Hungary, Bulgaria, Ukraine etc. It is an implementation of a complex method, which consists of active measures for dealing with the problem of unemployment. These interventions refer to preserving jobs, assistance for transition to new jobs and creating jobs for workers. In support of these activities we implement a model, known as the USDOL Model and are composed of three components: Worker Adjustment, Local Economic Development and Enterprise Competitiveness. All these three components are integrated, are implemented at the same time so that the Model achieves the best effects. The Worker Adjustment Component can provide workers with the access to employment services prior to being laid off. In Macedonia this Rapid Response program is implemented through the Ministry of Labor of the Republic of Macedonia, i.e. the National Employment Bureau and its offices. In order to organize this process in the enterprises facing mass lay offs labor-management adjustment committees are established which take care of the possible future employment of the workers who are endangered with lay off.

Speaker: How many communities have been included in this project

Romela : As the preliminary plan was designed, the project will include all 30 communities in which there are local representative offices of the ministries, our partners which

we cooperate with, i.e. the Ministry of Labor and Social Policy, Ministry of Economy, Ministry of Education, the Association of Local Government Units, the National Employment Office, the Federation of the Trade Unions in Macedonia, the Chamber of Commerce and NEPA, the Agency for Small and Medium Size Enterprise Promotion.

Speaker: I suppose you have already scanned the situation in Macedonia because you do labor market analysis. So what is currently the demand on the labor market in the Republic of Macedonia?

Romela: The labor market analysis is an analysis of the demand and supply of the labor market in a particular time. PRiSMa is bringing the methods for doing labor market analysis and it is a rule that we need to do it once a year. This will mean the status of the community in a certain time.

Speaker: Because this is a changeable category.

Romela: Yes, the labor market is a changeable category and by encouraging the partnership among all these institutions we are making efforts to introduce an ongoing practice for labor market analysis. I am speaking about the partnership between the employment offices and the Ministry of Education. We all agree that the influence of the education factors in raising the workers' competitive advantage from the aspect of employment is exceptionally strong in the realization of each individual's right to employment. The encouragement for partnership between the employment offices, being employment brokers, and education, particularly secondary vocational schools, the two inseparable partners in the labor sphere. These two institutions must work simultaneously when we speak about identifying and possible planning in this area.

Speaker: You invest in programs from work to school, you work on the professional orientation, so that young people are prepared for possible change of job and they do not experience the same thing that we have witnessed with their parents. As we said all this must be done in an organized way, in accordance to the needs of the state. Does the state have a good ear for this?

Romela: Certainly. At the very beginning and during the whole implementation of the project PRiSMa succeeded to create and upgrade the partnership among the institutions, particularly at local level, in the communities. In all 30 communities we have operational local teams, we call them PRiSMa teams in which there are representatives of our partners. The teams also include representatives of the private sector, particularly of the small and medium size enterprises. Also unemployed people, workers are members of our team; this is a broad based partnership. The Local Economic development teams include 30-50 participants in the implementation of the LED component. This is an effort to help small and medium size enterprises by selecting a project that will encourage employment in their community. This is the partnership which we constantly emphasize and the people are pleased, they want to work in the workshops we organize for them in

which 30-50 people actively participate in resolving community problems, including one of the most burning problem, the unemployment.

Speaker: I suppose you do not have ambitions to make reforms in the educational system, this is actually the work and task of the state, but can we talk about the differences in the curricula design?

Romela: The Model, as it is in the United States, we did not take it as it is and are not implementing it in Macedonia, so to say, like an implanted tissue.

Speaker: It would be eliminated from the start.

Romela: It surely would. During the team work, we have the ear for the needs of our partners and the communities, and we constantly make changes to adjust the model to the Macedonian environment, so the education system, i.e. the educational institutions are included in the third component, the Enterprise Competitiveness. One of the essential preconditions for developing a competitive economic environment is a flexible labor market, so the implementation of active measures is done for stimulating the labor market flexibility. This component is supposed to help enterprises become more competitive on the market by improving and good utilization of their human resources. The workers are trained in order to have better productivity, efficiency and utilization of the human resources. How do we do this? By organizing short-term courses. The Local Specialist, a representative of the Employment Office in the community and the secondary vocational teachers has an organized effort to improve the practical training. These representatives are trained to do job analysis, scan the job, obligations and tasks, scan the job, identify obligations and tasks and training needs. Based on this analysis the curricula are designed, which means that these are not curricula directly taken over from the USA or another country and not possible to implement them here. The curricula are designed based on the job scanning in Macedonia in a concrete company, which helps plan the human resources and training. This will help plan the training in the communities, and also in the state.

In the 30 municipalities PRiSMa has so far entered 18 communities or 21 companies. The total number of trained workers is 489 based on this component only. The following activities will continue in the other 12 communities or at least 12 new companies. In the communities I can present part of the results: In Sveti Nikole we worked in milk industry Milko DOOEL, in Delcevo 2 textile companies Biljana 2000 and Idnina, in Gostivar we worked in Radio Gostivar with quick start in the media, in Tetovo also media, Radio Tetovo and TV Kis, then in Radovis textile industry Markos RTD, in Strumica shoe industry Superra, we also have results with the quick start training in Urban Invest in Kavadarci. This is a variety of industries and sectors depending on the needs in the companies when the analysis was done. This also refers to already working staff and new employment in the company due to new technology or change in the company.

- Speaker: The Unions certainly cooperate with you, they are your partners, too.
- Romela: The Federation of Trade Unions is also one of our primary partners in implementing this component and not only in this one, but also particularly in the Rapid Response component. It is about helping companies that plan mass lay offs. This component includes a survey of the workers endangered with lay off. Then the endangered jobs are determined and look for their transition to new jobs and every transition requires training.
- Speaker: How long is the PRiSMa project planned to last and are the activities implemented with the designed dynamics?
- Romela: The good and bad side of PRiSMa is that the things are going even faster than the planned dynamics. The PRiSMa project has achieved a lot of positive results and I can say that we have realized not 100, but 120% of what was designed. All three components are rapidly implemented in all communities, and certainly the results are obvious. Last year we had a consulting house to conduct an individual evaluation of the project and it says that this is the project which achieved highest results in the shortest time at lowest cost. So, it is obviously cost effective, we are demonstrating results of the Model and now we are working on its institutionalization, which means that people are trained all around the state to implement this method. Institutionalization means that the model is accepted within the institutions and they are able to implement it. It also means that it will become part of the routine work in the employment offices, the Ministry of Economy and the Ministry of Education, as our primary partners, as well as the Unions. We hope that within one year the primary PRiSMa objectives and tasks will be done.
- Speaker: We shall now listen to Snezana Marolova from the Stip Employment Office about the cooperation between the secondary vocational schools and the employment office.
- Marolova: In the community of Stip, among other components, the Quick Start component was implemented. We have been cooperating with PRiSMa since 1999. In Stip we have implemented all the three Integrated Model Components. The third component, the Quick Start, was implemented in Gamatex textile company in cooperation with the Ministry of Education, the vocational schools where we had representatives from education and in cooperation we managed to help in a way to the company to train the workers to become more competitive on the market and global economy. As you know well, Stip is the town of textile and nearly all textile companies are interested in being involved in the third component. In my opinion PRiSMa ought to become part of the regular work of the employment office, i.e. the National Employment Bureau. It is only in this way that that we can help the companies with excess of labor force, provide pre-lay off services, with their competitiveness and in general the local economic development. The

cooperation with our partners, besides the vocational schools, must extend to other sectors at local level.

Speaker: I will also invite two vocational school teachers in Macedonia, Branko Aleksovski from the Agricultural School Kiro Burnaz in Kumanovo and Ismail Rusiti from the Vocational High School Goce Stojcevski in Tetovo. Let's listen to what they have to say.

Branko: The rapid technical and technological changes directly affect all the segments of social life, as well as the inconsistency of the labor market, which, you will agree, requires a much higher labor force flexibility to be able to adapt to these changes. In this respect PRiSMa has made and is making large steps, particularly with the Quick Start component in which our school was included. Being a secondary vocational school, it is very important for us to provide safe service for getting labor market information. We can boast with significant achievements in this respect. Within the PHARE Secondary Vocational School Reform Program several labor market studies were conducted when the pilot vocational schools established contact and cooperation with the local government, serious contacts with the local companies in order to see what are the real needs of trained workers. The education in a way must be a service for these enterprises, we must produce trained people who will be able to respond to these needs. In this respect we have implemented a very successful part of the Quick Start component, the rapid training for unemployed people who will now be working in the local newspaper Nas Vesnik. Namely, it was necessary for Nas Vesnik to employ some reporters, however there were no such profile of job seekers registered at the employment office. However, there were a lot of other university degree registered unemployed. A reporter's job analysis was conducted, a curriculum developed and training was performed in which the school was mostly involved. We trained 8 people with a short term training program and the people were soon ready to start working in the newspaper with very good prospects of getting permanent employment. I am very proud that in our town, Kumanovo we are able to help 8 young people get employment and have a successful career.

Rusiti: The vocational school and its representatives were included in the PRiSMa project in the third component, the Enterprise Competitiveness component. In the town of Tetovo a Rapid Response method was implemented in two local companies which were selected by public advertisement. The selected companies were RTV Tetovo and RTV Kis from Tetovo. In this project we trained 5 potential workers and a number of already working staff in these two TV stations. 5 TV presenters, 8 TV reporters and 6 mix-technicians were trained. We consider this project very successful and believe that we will continue with such projects in the future. As a result of such projects the vocational schools will be able to develop curricula and make programs which they can implement in various organizations and companies at local level and regional.

Speaker: What did you listen to in this edition of the educational program? We heard that since 1999 in 30 communities in Macedonia 4,272 jobs were created, and in the implementation of the PRiSMa project over 2000 partners were involved. In this

edition we talked about the PRiSMa Project, and the program was honored with the participation of Romela Popovic Trajkova, Program Consultant from PRiSMa, Snezana Marolova from the Stip Employment Office, and secondary vocational school teachers Branko Aleksovski and Ismail Rusiti, coordinators in Kiro Burnaz School from Kumanovo and Goce Stojcevski School from Tetovo. The program was prepared by Vesna Spasovska and Jelena Stamenkovic.

## **USA: Utah “Custom Fit” Training Program**

The successful Quick Start program introduced in Hungary and other CEE countries is based on experience gained by state governments when operating short-term intensive skill training programs for business and industry in the United States during the past 20 years. An example of how the methodology incorporated in Quick Start has been successfully used in the United States is illustrated by the Custom Fit training program in Utah.

The mission of the Custom Fit Training Program, originally started in 1992 to meet the “emergency vocational needs” of Utah businesses, is “to provide training and assistance to company employees through applied technology centers (ATCs) and post-secondary institutions in order to stimulate economic development, facilitate the creation of new jobs, articulate with public schools, and provide businesses with trained workers.”<sup>2</sup> Custom Fit training Programs are coordinated jointly by the business, ATC and Utah Office of Education.

The state of Utah has a population of two million people and a growing economy. It is divided into seven regions. Each region has assigned an applied technology centre (ATC), community college or other designated vocational education institution to administer the Custom Fit programme. Each centre is committed to design, develop and deliver job preparation and upgrade training to meet the needs of the businesses and industries in the region. ATC services deploy technology through technical and managerial training, hardware and software demonstrations, business partnerships, technical assistance, distance learning and computer-based training, small business development, service brokering, etc.

This state-funded program is an important part of the economic incentive package that state and local economic development officials offer to Utah firms seeking to expand their operations and to major firms thinking of locating in Utah. It is intended to provide training for three types of Utah businesses: (1) new businesses, (2) expanding businesses; and (3) businesses needing to be revitalized.

1. “*New businesses*” include (a) for-profit businesses newly incorporated or licensed in Utah; (b) incorporated or licensed businesses in the state that have been purchased by other parties and are subsequently restricted; (c) incorporated or licensed businesses that open additional facilities in another region of the state; or (d) incorporated or licensed businesses that close in one region and reopen in another region.
2. “*Expanding businesses*” include all for-profit businesses in Utah whose growth results in a net increase of new full time (35 hours per week) jobs when measured against their maximum employment during the previous twelve months.

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<sup>2</sup>State of Utah. Mission, Authority, and Standards Utah State Custom Fit Training Program (R277–913) October 1994.

3. “*Businesses needing to be revitalized*” include Utah businesses that are in danger of losing their competitive edge because of outdated equipment, technology, or knowledge. To obtain the increased or improved training needed to upgrade their work force, the businesses must express in writing to the Utah Office of Education that they have had a reduction in net profits during the past two years or expect a reduction in net profits during the next two year.

Custom Fit Training funds are used for short-term customized training, not course work for post-secondary degrees. To qualify for Custom Fit Training, employees must receive wages of at least US\$6.00 per hour and be permanently employed for a minimum of thirty-five hours per week. Training normally lasts for three to four months, six months is the maximum. Appropriate documentation of progress and completion is required.

The program can provide up to US\$500 per trainee to pay for the training. These funds can be used to pay for instruction, books and supplies, curriculum development, and supervised on-the-job training by a supervisor appointed by the business participant. The maximum amount of Custom Fit funds that any individual company can receive is \$100,000, or not more than 25 percent of the region’s current year allocation).

The primary benefit of the program is its flexibility. Custom Fit takes into consideration the unique training needs of individual companies. This is particularly relevant for mid-size and small firms with limited training budgets or experience. Many of these companies would not have training of any kind without Custom Fit Training.

### **Funding priorities:**

- *Business firms* based on the availability of CFT funds, company/ industry stability, employee wages, employee benefits, increased or improved potential industrial or commercial opportunities, employee turnover and longevity, and prior participation in CFT programs or acceptance of funding.
- *Custom Fit Training staff* evaluate training proposals to assess their potential to initiate additional new net jobs, to upgrade employees to assure the business’ competitive position and to enhance economic development in Utah; and
- *Training for production, processing and assembly-type jobs.*

The Custom Fit Program is administered by the Utah State Board for Applied Technology Education (hereafter Board) aided by an advisory group appointed by the Utah State Board of Education consisting of representatives of the Office of Education, State Job Service, higher education, Office of Community and Economic Development, Office of Rehabilitation, ATCs, and business and industry from each region where funds are distributed and business representatives agree to participate.

Custom Fit funds are appropriated by the Utah Legislature to the Board to be expended through Utah’s public schools, ATCs, and institutions of higher education providing Custom Fit Training programs. Currently, the state legislature is funding this economic development program with about US\$2 million..

## Results of “Custom Fit” training<sup>3</sup>

During the first two years of operation, 1992 to 1994, 295 businesses and 17,136 employees received training under the Utah Custom Fit Training Program. The average cost per trainee was \$256.

One of the important contributions of Custom Fit Training programs is that they form an effective partnership between education and business. A survey of Utah employers participating in Custom Fit Training found that only 22 percent of the responding firms had, at their own expense, used training provided by educational institutions prior to using Custom Fit. After the Custom Fit program introduced them to the training resources of the educational institutions (including ATCs and community colleges), 45 percent continued to use such training at their own expense.

Characteristics of firms using Custom Fit Training:

- a manufacturing firm
- fewer than 500 employees
- a limited training budget (Custom Fit is critical to the firm’s training program)
- trainees have “high school or less” education
- entry level training includes craft or technical skills
- low turnover rates
- training includes classroom instruction and curriculum development by an ATC or community college.

### Getting Started

## Steps to implement a Quick Start training program

The following seven steps for implementing Quick Start programs are based on the USDOL manual for developing Quick Start training projects in Bulgaria, and manuals and materials used to implement Quick Start projects in Hungary and Custom Fit programs in the United States.<sup>4</sup>

### Step 1: Establish labor office/business/vocational training center linkages

The Preparatory Phase of a Quick Start program includes: establishing a partnership among the providers and customers, determining the eligibility criteria for participation, developing a marketing plan, and marketing the training concept among employers.

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<sup>3</sup>“A study of the custom fit training program,” Salt Lake City: University of Utah Bureau of Economic and Business Research, March 1995.

<sup>4</sup>*A manual for developing Quick Start projects in Bulgaria, 1997.* (Developed by Kut Becker, USDOL in cooperation with USAID and the National Employment Service, Ministry of Labor and Social Welfare, Sofia, Bulgaria); Gary B. Hansen, “USDOL Quick Start training for enterprise competitiveness;” USDOL, “Manual: Developing a Quick Start Project;” USDOL, Quick Start Training Programs for Hungary.”

***Determine criteria for selecting target companies and trainees.*** Quick Start partners determine the eligibility criteria used to select companies to receive training assistance. Four types of companies might be considered eligible for Quick Start training:

- A restructured company that needs to upgrade its workers' skills to remain competitive.
- A restructured company that is expanding its operation.
- A restructured company that is introducing a new product or process.
- A new company that needs assistance in training new workers.

Quick Start training can be provided to companies willing to hire unemployed workers, or to companies whose workers need to be retrained to maintain or improve their competitiveness.

***Develop a marketing plan.*** Once the decision is made about what types of companies or industries and workers can be helped, the enterprises must be made aware of the availability of Quick Start training and how it can help them be more successful. The company also must be convinced that an ample supply of potential workers exists in the area that possess the basic qualifications to be trained, and that the training program will train them for specific jobs in the company.

Using available media, information from the Local Labor Offices, vocational training centers, Chambers of Commerce and other sources, contacts should be initiated with potential client companies to explain the Quick Start program and invite their participation. Background information must be gathered about a specific target company--its operations, its customers, its products and services, and its competition. Possible sources of such information include annual reports, credit reports, and company officer biographies.

***Set up an initial visitation with the target employer.*** The initial contact may include a telephone call, an office meeting, or a meeting at the company. The purpose of this contact is to provide the employer with a thorough understanding of the Quick Start Program including how it will operate, what government agencies will provide and do, what the company must provide and do, the expected outcome and its value to the company.

***Explain Quick Start methodology and process.*** The objectives of the Quick Start program should be explained to the employer. Quick Start uses a structured training development process to identify a firm's training needs, and designs and delivers customized skill training for existing or unemployed workers who will be hired upon completion of training. Quick Start training improves the skills of workers and competitiveness of their enterprises. This Preliminary Phase should also involve learning about the client's needs and problems by allowing the company representative to describe the company's problems and determining what the company wants to accomplish through training.

***Establish procedures and sign training agreement form.*** After explaining the Quick Start objectives and process, the employer should be invited to participate and asked to sign a written training agreement. The agreement spells out what each partner will be expected to do. It stipulates clearly the roles and responsibilities for everyone involved, eliminating any surprises later on. It is the responsibility of the designated individuals representing the three partner organizations (local labor office, vocational training centers and businesses) to ensure that the services are provided within the time frames specified in the training plan to be developed. The agreement should specify:

- the objectives to be met
- who will be trained
- the number of trainees
- the dates and times the training will occur
- who will conduct the program
- the number of instructors
- the instructors' qualifications
- the company's responsibilities
- the training Center's responsibilities
- the local labor office's responsibilities
- the costs involved, payment method and responsibility

The signing of a training agreement completes the Preliminary Phase of the Quick Start program.

## **Step 2: Implement a systematic training development process**

The Developmental Phase starts with job and task analyses conducted by Quick Start training specialists from the USDOL/WSI Industrial Adjustment Project and the vocational training center, assisted by the company training officer and a foreman or supervisor. Their job is to:

- Determine the jobs for which training will be provided. A job is a collection of tasks performed to produce a product or service.
- Conduct a job analysis of each job for which training will be provided using such techniques as observing, interviewing, holding supervisory conferences, and administering questionnaires and checklists. The purpose of the job analysis is to assure that the training program addresses skills, behaviors, and knowledge requirements essential for successful job performance.
- Develop task and duty statements. After data has been collected, the tasks are analyzed and developed into task statements. These are grouped and sequenced into logical units of work. Duty statements describe a cluster of related tasks, making it easier to develop training plans.
- Select tasks for inclusion in training. Each task should be examined to determine which ones to include in the training program. .
- Develop performance standards for each task. The performance standard should be based on the level required for acceptable performance.
- Develop performance steps. Performance steps are a series of steps required to complete the task. They are developed for each task to determine the knowledge, conditions, materials, tools, equipment, and safety considerations for the task.
- Identify tools, materials, equipment and work aids. A list of the tools, equipment, materials, and work aids required to carry out each task is developed.
- Identify knowledge, skills, abilities, and attitudes. Each task statement and performance step must be analyzed for the minimum knowledge, skills, abilities, and attitudes a trainee must have to successfully complete the task.
- Identify safety hazards and conditions. The conditions, circumstances or situations under which the worker performs tasks must be described and analyzed to determine

if they might cause injury to the worker or others, result in damage to tools, equipment and materials, and prevent successful task performance by the worker.

### **Step 3: Develop training curriculum and materials**

*Develop a curriculum and training plan, and assemble training materials.* This step includes reviewing job and task analyses and statements, performance steps and knowledge requirements. A format for the training plan is selected based on need. It must include the instructional activities, resources and methods.

When developing instructional activities, consideration must be given to the trainees' ability levels, education levels, varied learning styles, individual interests, and emotional needs. All instructional activities should be designed to provide trainees with experience in successful task performance. Use of modern teaching technologies and instructional activities is also encouraged. Successful job instruction depends on the efficient use of these tools.

The training delivery plan must consider such factors as:

- location of training--such as on-site, vocational training center, etc. and facilities requirement
- type of training--formal classroom, on-the-job training, etc.
- location and availability of qualified instructors
- development and use of customized training materials
- instructional methods and techniques to be used
- audio-visual requirements
- program length, number of hours, training period length
- pre- and post-tests
- basis for documenting trainees' progress
- methods of evaluation

The plan should also include a training timetable that takes into account:

- the urgency of the training as determined by the original training need
- number of trainees involved
- time required to train staff to develop the training program
- time required to develop learning packages sufficient to start the course and to allow enough lead time for developing the remaining learning packages
- time required to prepare learning stations
- times when the required production equipment will be available
- times when instructors will be available
- time required to implement the training for each modular unit
- time required to implement the entire training course

### **Step 4: Select and train instructors**

A key element of the developmental phase is the careful selection of instructors. They should:

- be knowledgeable about the subject
- understand how to work with adult learners

- have practical work experience.

Most Quick Start training programs use company personnel as instructors, especially for the practical skill part of the program. Company personnel make good instructors because they:

- know the process and have a good understanding of what is being taught
- do not require training to learn the technology
- can keep the trainees' attention during training, especially if they are supervisors

Full-time vocational training center faculty may be well suited to teaching the theoretical component of the training program.

It is essential to train those who provide expertise in planning, developing, and conducting Quick Start training to companies. They should be given a Train-the-Trainer course covering the selection and efficient use of the various instructional tools and techniques and understanding the learning process. This includes:

- understanding job and task analysis, the sequencing of job tasks, and using this information in teaching
- developing course agenda and lesson plans that can be used to guide the instructional process
- learning to use teaching aids (such as audiovisual materials and equipment appropriately)
- learning how to plan classroom teaching that is directly related to the skills and knowledge of the job
- learning how to present new material to adult learners

## **Step 5: Recruit, screen and select trainees**

The first element of the Implementation Phase is identifying potential trainees. The Local Labor Office is primarily responsible for recruiting potential trainees from unemployed workers and for the initial screening of the applicants. Employers identify trainees from existing workforce. In most cases, the final selection of trainees is a joint effort of the labor office and the company. The Labor Office can recruit potential trainees by:

- reviewing files of unemployed persons registered in the labor office
- newspaper articles and want ads
- radio and television announcements
- placing posters in places frequented by local people

Using the job analysis, the company and the labor office should agree upon the basic educational requirements, physical abilities, aptitudes, interests, and attitudes required for the job. The labor office may use the following screening techniques:

- testing
- interviews
- previous worker experience

The company should assist in the final interview and selection of the trainees.

## **Step 6: Conduct the skill training program**

The second element in the Implementation Phase consists of scheduling, organizing and delivering skill training to selected trainees. Company trainers usually provide practical skill training, and the vocational training center staff provides the theoretical training.

## **Step 7: Evaluate the results**

Following the delivery of the skill-training program, the results are evaluated. This is the final element in the Implementation Phase. Quick Start training should be continually evaluated and revised, particularly when new equipment and technology changes occur. Evaluation should occur on two levels: course evaluation and program evaluation.

Course evaluation includes an evaluation of the course by the trainees to determine how well the training content is received. Course evaluation also includes an assessment of the trainees and the instructors by the program provider.

Evaluation of the trainees' skills and knowledge acquired from the course is one of the most critical steps in the training process. Tests should be constructed to address three domains of trainee learning--manipulative skills, knowledge, and attitude--related to task performance standards.

The course may teach the desired competencies yet administrative or financial problems may prevent the overall program from being a success. Some items to be considered include:

- average cost per trainee
- average cost per hire
- estimated return from wages, increased tax revenues, higher demand for various service industries
- rate of training participation
- effectiveness of liaison among the three Quick Start partners
- increase in jobs for the population as a whole, for chronically unemployed, and underemployed groups
- quality of the program plan
- quality of the program organization
- quality of the program management

Because the Quick Start training program development process is cyclical, results of both the course and program evaluations can be used to improve the program. The results should be made available to the individuals involved in making decisions about future courses and for further development of the Quick Start program in the community, industry or country.

The success achieved by Quick Start training programs in Hungary led to the subsequent introduction of this concept in Bulgaria, Poland and Macedonia as part of the USDOL/WSI integrated adjustment programs in those countries.

# LIST OF ACRONYMS

ALMCs	Area Labor-Management Committees
ATC	Applied Technology Centers
BI	Business Incubator
BPSC	Business Promotion and Support Center (Bulgaria)
BRI	Bank Rakyat In.donesia
BVP	Business Visitation Program
CBS	Community Business Scotland
CDCs	community development corporations
CEE	Central and Eastern Europe
CED	Cache Economic Development
CEO	chief executive officer
CER	Community Economic Renewal
CET	committee effectiveness training
CETs	cooperative entrepreneurship teams
CFC	common facility center
CFO	co-operative financial office
CLA/EM	continuous local assistance/extension model
CLC	County Labor Center (Hungary)
DOL	Department of Labor (USA)
DWU	dislocated worker unit
EDCs	economic development corporations or council
EDI	Enterprise Development Institute (India)
EDOs	economic development organizations
EDPs	entrepreneurship development programs
EDWAA	Economic Dislocation and Worker Adjustment Act
ER	economic renewal
ESOP	employee stock ownership plan
EU	European Union
GAO	General Accounting Office (USA)
GETC	group entrepreneurship training center
GTZ	Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)
HEDC	Hawaii Entrepreneurship Development Corporation
HIDB	Highlands and Islands Development Board (Scotland)
IAS	Industrial Adjustment Service (Canada)
IAS	Industrial Adjustment Specialist in CER program
IB	interest-based
IBDR	interest-based dispute resolution
IBN	interest-based negotiations
IBPS	interest-based problem solving
ILO	International Labor Office (or Organization)
ILMC	in-plant labor-management committee

IMPIVA	Institute for Small and Medium-Sized firms (Valencia, Spain)
INTERMAN	International Management Development Network
IYB	Improve Your Business (ILO Program)
KAB	Know About Business (ILO program)
LDCs	local development corporations
LDOs	local development organizations
LED	local economic development
LEDA	local economic development agencies
LMC	labor-management committee
LMAC	labor-management adjustment committee
LT/ERM	leadership training/economic renewal model
MDPs	microenterprise development programs
NBC	new business creation
NDC	National Design Center
NGA	National Governors Association
NGO	nongovernmental organization
OAW	Office of the American Workplace (U.S. Dept. of Labor)
PAEF	Polish-American Enterprise Fund
PHARE	European Union funding program
PI	productivity improvement
PI/CS	productivity improvement/cost saving
PIL	Program for Local Initiatives
RAC	reemployment assistance committee (Hungary)
RDA	Regional Development Agency
REAL	Rural Entrepreneurship through Action Learning
SBA	Small Business Administration (USA)
SBDCs	Small Business Development Centers
SBI	Small Business Institutes
SBPP	Small Business Promotion Program (Nepal)
SELP	Self-Employment Learning Project
SMEs	small and medium-sized enterprises
SSEs	Small-scale enterprises
SWOT	strengths and weaknesses, opportunities and threats
SYB	Start Your Business (ILO program)
TECMEN	Technology Coast Manufacturing and Engineering Network
TFP	training for partnership
TFPS	training for partnership series
UAW'	United Automobile Workers Union (USA)
UI	unemployment insurance
UNDP	United Nations Development Program
USA	United States of America
USAID	United States Agency for International Development
USDOL	United States Department of Labor
WC	worker cooperative
WRDC	Western Rural Development Center
WREDP	Women in Rural Enterprise Development Program
WSI	Worldwide Strategies Incorporated

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