

# **Management of Small Rural Businesses: Some Views of the European Bahá'í Business Forum**

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## **Introduction**

Most third world countries remain agrarian societies; indeed the urban development of the last 30 years is a new phenomenon and urban settlements, however big, reproduce social behaviours and allegiances inherited from their rural connection. This is why changes and disruption in rural areas have consequences for a country as a whole. The proletarianization of rural areas and the creation of an ever-increasing army of landless labourers as a result of the introduction of capitalism and the destruction of the traditional social fabric is one of the most fundamental agents of change in the rural and urban landscape of most third world countries. The speedy rise of slums, favelas and other sprawling urban shanty towns is directly linked to this poverty dynamic in the countryside. It is estimated that between 1950 and 1970, migration from rural areas accounted for 45 per cent to 55 per cent of urban population growth in the world. The present trend of industrialization in the third world indicates that urban areas will not be able to absorb the continuous flow of migrants from the countryside where social and economic relationships have broken down. This conclusion implies that the agricultural sector will have to generate productive employment for increasing numbers of people for many years to come.

However, a renewed focus on the rural sector should not be advocated solely as a temporary relief for the urban areas; on the contrary, restoring dynamism and pride in rural life should be seen as a prerequisite to harmonious global development. Indeed, as one early 20th-century thinker put it, 'the solution begins with the village, and when the village is reconstructed, then the cities will be also'.<sup>2</sup> Restoring stability and enthusiasm in the countryside is an arduous task which requires a simultaneous focus on both social and economic issues. However, the first prerequisite for social and economic well-being is the provision of productive employment opportunities that will provide rural dwellers with the means and confidence to 'reconstruct the village' as a place of peace and progress.

Two main sectors have a great influence on the carrying capacity of the rural areas:

- The small farm sector
- The informal small business sector

The trend in agriculture towards increased productivity of labour through mechanization and new cultivation techniques implies that the labour absorption capacity of the small farm sector will remain limited in the future. On the other hand, the informal sector, which is made up of rural non-farm activity, will play an increasing role in rural employment. Indeed, at the beginning of the 1980s, off-farm employment made up 43 per cent of the labour force in Colombia, 28 per cent in Kenya and 37 per cent in Malaysia.<sup>3</sup> This trend has accelerated in subsequent years.

## **Characteristics of Small Rural Businesses**

Despite the variety and size of small rural businesses which range from craftsmen and small workshops to micro-agroindustrial businesses milling grain or making cheese they have common characteristics:

- Small scale: they are usually family owned and operated; start up costs are covered mostly through family savings and rely only rarely and marginally on a loan component.
- Labour intensive: production and service activities often rely on labour; equipment is simple and a great deal of ingenuity goes into the respective processes.
- Minimal capital input: owing to a scarcity of capital and a lack of access to cheap sources of credit, investment in equipment and working capital is very small.
- Local market orientation: most microenterprises find both their customers and suppliers within a very localized area. Rarely does the scope of the activity extend beyond the village and its environs.
- Resilience/flexibility: The preceding characteristics suggest that small business activity is very resilient to change, whether for good or bad. In addition, it is well adapted to the specific context and efficiently organizes the existing factors of production.

### **Role of Small Rural Businesses Dynamization of Rural Areas**

Integration vs disintegration: The most visible and far-reaching contribution of the establishment of small businesses in a given region is the integrative forces that it sets in motion. Indeed, small businesses have linkage potential that brings together, on a local basis, demand and supply. In addition, small businesses have a multiplier effect which stimulates the emergence of dynamic villages or rural towns which act like magnets for the surrounding countryside. This newly-found stability can reverse the process of depopulation and the disintegration of social and economic relations that plague rural areas.

#### **Employment Potential**

The development of employment opportunities through the emergence of small businesses will have three main consequences:

- Stem and reverse the tide of rural-urban migration.
- Provide employment to the poorer sections of rural dwellers who have been displaced by the process of land concentration.
- Reduce this concentration pattern by providing off-farm opportunities to family members of the small farm sector thus reducing the need for distress land sales in times of agricultural hardship.

#### **Stimulation of Village Life**

A stable and active village life will usually settle around the small cottage industries and agroindustrial businesses. The multiplier effect of the latter will not only create new business opportunities but will also inject new dynamism into the surrounding agricultural sector. The main consequence of this dual phenomenon will be the strengthening and growth of a bustling market. In addition, closer integration will stimulate more responsive patterns of social relations and a higher degree of cohesion and identification in the community. This reinforcement of social ties will stimulate the emergence of more representative and active local organizations and authorities.

#### **Provision of Basic Services**

The establishment of an active village life sustained by its own economic strength will provide the appropriate conditions for the implementation and strengthening of basic services. Indeed, the main prerequisites for the successful operation of basic services such as utilities, health and educational

institutions is the stability of the environment and the potential of the settlement to act as a catalyst for the surrounding area.

### **Participation**

One of the most promising potentials of small businesses is their capacity to stimulate new, broadly based patterns of participation which transcend the established elitist relations of production prevalent in rural areas. A larger portion of the population can thus participate in the economic life of the area and contribute to the advancement of the community. The emergence of new social relations emphasizing participation and responsibility provides a fundamental landmark for sustainable development. The role of women is especially visible in this sector, giving them new sources of income but also a new position within the social framework of the community.

### **Stability of Income**

One of the characteristic feature of agriculture is the seasonal nature of income generation. Indeed, for most rural farming families, the bulk of yearly cash inflow occurs at harvest time and the quality/quantity of the harvest will determine to a large extent the well-being of the family for the year to come; this phenomenon is the same for the community as a whole. Small businesses have the capacity partially to offset this natural instability by providing both regular and alternate sources of income to both the individual and the community. In addition, the existence of new, less volatile sources of income will provide a further boost to fiscal revenue which can then be reinvested for social and infrastructure purposes.

### **Outcomes**

As we have seen, there are many positive outcomes that a rural community can derive from the establishment of small enterprises. The most important is the contribution to the reconstruction of village life, both social and economic, based on more participative and responsible patterns of relationships. These new dynamic ties are the firm foundation on which rural areas can create the conditions for providing well-being and welfare to the rural population. However, besides this collective integration role, small businesses have the potential to cater for and nurture the development of the individual.

### **Developing the Individual**

The human is both the object and actor of sustainable development, thus development is sensible only if it centres on the individual; it must be a process aimed at liberating his physical, intellectual, social, affective and spiritual potential in order to increase his capacity to contribute to the society to which he belongs: 'All men have been created to carry forward an ever-advancing civilization.'<sup>4</sup> Many factors contribute to the balanced development of the individual and prime among them is engagement in work. Indeed, work in a spirit of service 'has a value in itself, because it draws us nearer to God'.<sup>5</sup> In addition, the development of the individual involves transformation, and transformation is reflected in one's behaviour and action. This process is achieved through 'fewness of words and abundance of deeds'.<sup>6</sup> Since business organization in its multitude of forms, focuses and sizes is a means of action through excellence, it holds great promise for the development of the individual.

Small business organizations are an ideal instrument for the individual to crystallize his creativity, imagination and motivation. The combinations of skill, aspiration and motivation that lie at the heart of a business enterprise are as numerous and varied as the needs to be satisfied.

One of the human's fundamental characteristics is the need continually to surpass his own self, to meet new challenges and new struggles. 'Life is after all a struggle. Progress is attained through struggle, and without such a struggle life ceases to have a meaning . . .'<sup>7</sup> Business is one of the most useful vehicles for this spirit of initiative and entrepreneurship.

Small business also has the great potential of enabling the individual to experience responsibility within the wider context of the environment in which they both operate. Both the entrepreneur and the employer witness this sense of responsibility, albeit at different levels. In addition, small business provides an excellent framework for participation in decision-making through the process of consultation. Consultation provides an ideal forum for the expression of diversity and the practice of team work.

Because they are integrated into the surrounding environment, participants in the small business sector experience an acute sense of belonging and usefulness to their community. A strong identity and sense of purpose are two vital assets on the road to transformation and full development of human potential.

The combination of these four potentials can trigger a virtuous circle where transformation, improvement and service become primary objectives of the individual's existence; the context of the business organization offers him the means to express and manifest this newly found purpose.

## **Conclusion**

As we have seen, the emergence of a small business sector in rural areas can be very beneficial to both the collective and the individual. On the one hand it contributes to the development of an active community life while, on the other, providing the individual with a space to grow and develop autonomously. The main challenge to the practitioners of development trying to implement a small business promotion scheme in any given rural area is how to transform this latent potential into reality. Although there are numerous possible answers to this challenge, it is the application of management practice within these small businesses that will determine whether or not this promising sector can live up to expectations.

## **Management Practice**

In a broad sense, business organizations are instruments; they are the means through which an objective is achieved. As any other instrument, they are absolutely neutral. It is the human being through management that give the business a direction and sets the guidelines to achieve the objective.

### **Definition of Management Practice**

The role of management practice is to organize and set in motion available resources or factors of production in order to achieve/solve a given economic or social objective/problem. The factors of production include labour, land, raw materials, technology and capital, to mention only the most important ones. This definition implies that the two major focuses of management practice are the setting of operational objectives and the application of the technique to achieve them. The former is the 'where' while the latter is the 'how'. Any human action is made up of these two fundamental elements: an objective and the means to achieve it. Let us now review the features of desirable management practice.

### **Characteristics of Management Practice for Small Rural Businesses**

In order to reap the full benefits of small rural business schemes, certain factors should be emphasized in the management practice set up and followed by the entrepreneur.

## **Consultation**

A forum for dialogue and participation in decision-making should be set up by the manager. This will enable him to improve significantly the reflection and input for the decision-making process while securing the motivation, responsibility and dedication of the employees.

## **Cultural Sensitivity**

A successful management practice must integrate at its core the cultural specificities of the local circumstances. In this sense, management models which may have been very successful in other contexts may prove incapable of catering for important aspects of life in a specific environment.

## **Integration with the Local Economy**

The most potent agent of development in a given context is a business organization whose backward and forward linkages are rooted in the local/regional economy. Indeed, this integrative character will concentrate the multiplier effect to the surrounding area thereby consolidating social and economic ties within the community. A management practice which emphasizes this process should be encouraged.

## **Social Integration**

Because of its novelty as a rural mode of production, the small business sector of the rural economy does not suffer, unlike agriculture, from the constraints of a traditional/antiquated system of social relations of production. On the contrary, the small business sector has the opportunity to enlarge the spectrum of participation and integration to rural groups that were more or less marginalized from the dominant social and economic relationships. Thus management practice should encourage the recruitment of employees based on competence rather than gender, social or economic considerations; in this sense, discriminatory practices regarding the employment of women should be fought vigorously.

## **Vision Statement**

The formulation of a vision for the business is one of the most fundamental components of management practice. This vision must incorporate not only objectives internal to the business itself but also provide an explicit sense of purpose for the business within the community. This latter aspect requires the formulation of a vision at the collective level by all social and economic agents of the community, which implies understanding and accepting that the collective vision overrides the individual business's internal objectives. The commitment of each member of this small business sector to participate in the construction of this vision and conform to its content is a core component of desirable management practice. A strong and representative community-based authority is mandatory in order to serve as a catalyst and enforcer of this collective vision.

## **The Search for Excellence**

This concept should be one of the main guiding principles implemented by management practice. It is through the application of this notion that any business activity will produce the greatest benefits to the community, increase the reputation and prosperity of the business and foster the development of the individual.

## **Social Responsibility**

Business management practice should stress the responsibility of each social and economic agent for the general well-being of the community/society to which it belongs. The scope and spread of the community or society with which one identifies will depend on the content of the prevalent value system. Regardless of size, management should take an active role in participating in the establishment of social services/utilities and encourage involvement of its own work force in socially related activities.

### **People as an Asset**

Management practice should recognize at its base that labour is not a cost to the business but, on the contrary, its main asset and as such needs to be nurtured and cared for. This reversal of attitude means accepting that the human is a multifaceted being whose needs are not only material, intellectual and physical but also social, affective and spiritual. It is the balanced satisfaction of these needs that will foster the dedication and allegiance of a person to his or her business organization and to the wider community while promoting the full development of his or her potential. This implies the implementation of practical measures from management, a theme which is, unfortunately, beyond the scope of this paper.

### **Profit Sharing**

A general application of this practice would produce several positive effects. First, it would reduce, if not eliminate, the tensions between capital and labour which absorb so much of the energy that could be dedicated to more productive and constructive purposes. Second, it would promote a higher degree of dedication to and identification with the business by the employee. The principle of profit sharing can also be applied between the business organization and the wider community in which it operates. Indeed, the prosperity of any given rural business is based as much on the existence of demand within the community as it is on the work of its employees. Thus part of the profits should be redistributed to the community through fiscal methods but also using a voluntary mechanism. The latter has the great advantage of creating a spirit of responsibility and solidarity. The concept of profit sharing applied to management practice would be a great step forward in establishing higher standards of economic and social justice.

## **Conditions for the Application of Management Practice**

Although there are certainly many more ideas which should lie at the core of any management practice of small rural businesses, the application of these proposals and the benefits they will achieve will depend to a large extent on two main factors:

- deliberate inducement policies at the macro level
- the inspiration underlying management practice

### **A Favourable Environment**

In order for a small business sector to emerge and apply socially responsible management practices in the rural areas, several conditions must be established.

- a. Deliberate policies promoting the development of the small business sector should be implemented by the local/regional and national planning authorities. Such an inducement package should address such crucial questions as:

- Fiscal measures to stimulate small businesses actively to hire employees, to distribute part of their profits to social ends, to integrate locally and so on. This is a very powerful tool when well used.
  - The provision of easier and more adaptable access to external finance sources.
  - The provision of counselling and advice services which can accompany and follow up emerging businesses.
  - The provision of adapted professional training facilities focusing on the local mix of factors of production.
  - The provision of technical research facilities capable of working hand in hand with the small business sector on process improvement.
  - The provision of infrastructure, utilities and services necessary for the emergence of this sector.
- b. Authorities at all levels local, regional and national should provide the conditions that foster the smooth development of future entrepreneurs. This forward-looking role is one of the most fundamental played by public planners since businesses by their nature concentrate more readily on short term objectives linked to the survival of their ventures. Thus the public sector should contribute to the creation in rural areas of appropriate and dignified conditions of life through the provision of basic services such as health and education facilities while promoting active measures for preserving the environment. This social and environmental focus of the public sector, added to the combined economic activity of the agricultural and small business sectors, will provide the conditions necessary for the development of the socially responsible entrepreneurs of tomorrow.
- c. One of the great, creative and far-reaching contributions that can be made by the public sector at the local, regional and national levels is the formulation and diffusion of a vision statement which can mobilize all social and economic actors behind shared objectives of development and the generation of the spirit that should underlie action. The latter should stress values such as unity, integration and solidarity as prime operational principles.
- d. The international context will also influence the capacity of individual governments to implement these policies. Indeed, international organizations such as the International Monetary Fund and the World Bank should soften their adjustment programmes to include significant social measures to offset the social cost of the transformation and transition process witnessed in the third world. More importantly, the recognition of the growing interdependence of the world should induce the adoption of new patterns of North--South relations where the medium term goal of a unified world outweighs the present short term, competitive model of relationships. The realization of such a goal, plus a more unified vision of purpose, will lead to a genuine acceptance of the need for a real transfer of resources from the North to the South. Indeed, as was pointed out more than a century ago, 'The well-being of mankind, its peace and security, are unattainable unless and until its unity is firmly established.'

### **A New Value System**

Since it is the individual who directs and orients business activities, he will ultimately determine the impact of his activity on society as a whole. Thus, if human actions, and more specifically businesses, are to reveal their full potential and contribute to an 'ever-advancing civilization', an ethic is required that will provide the framework within which management practice can be implemented. This ethic must, on the one hand, provide a vision through which human beings can find a sense of purpose and, on the other, establish a set of guiding principles or moral/spiritual values by which human action can be guided. It is only through an alliance with such an ethical package that management practice can hold to its promise of fostering real change and progress.

### **Source of This New Ethic**

In order for this ethic to be operational, it must be reflected in the behaviour of the individual. If it remains only at the level of ideas it will not be translated into action. Victor Hugo once said that 'revolution changes everything except the hearts of men', observing that despite its declaration of human rights, the French Revolution exhibited the same oppression and lack of justice as the previous regime. Thus the required ethic must be based on a transformation which begins within people's hearts and recognizes love as the vital force behind human life and civilization. What other than the teachings of the religions have demonstrated the capacity to transform people in such a way that the most important advances of civilization have been achieved? A close analysis of history shows that the greatest civilizations have been founded on value systems based on love, justice and service derived from one or other of the great religions. This why the European Bahá'í Business Forum believes that the challenge that confronts our decaying society can only find a solution in the moral and spiritual wisdom and principles of the great religions of the world, for 'the fundamentals of the whole economic condition are divine in nature and are associated with the world of the heart and spirit'.<sup>9</sup> Religion provides us with an ethic that sets out guiding principles and a value system as well as the power to transform our behaviour.

### **Guiding Principles for a New Management Ethic**

The cornerstone of these guiding principles is the recognition of the spiritual as well as the material nature of human beings and, as a consequence, that human civilization is ruled by both spiritual and material forces. It is only through the equilibrium of these two forces that real, long lasting prosperity will occur. 'Only when material and spiritual civilization are linked and coordinated will happiness be assured.'<sup>10</sup>

### **Unity of Humanity**

The acceptance of the concept of the oneness of humankind at the base of all decisions by both individuals and the community implies the adoption of a whole set of new behaviours. Such new behaviours will foster solidarity and cooperation rather than the existing dominant forms of social relationships which emphasize conflict and competitive attitudes. Such a new spirit of unity will need to be applied at all levels of social and economic interaction, be it the business place, the community or the world. In addition to fostering these new attitudes, this principle of the unity of humanity will also promote the abolition of prejudice and discrimination, which have been such tremendously destructive forces. Such behaviours as racism, which retards 'the unfoldment of the boundless potentialities of its victims, corrupts its perpetrators and blights human progress',<sup>11</sup> will, by the adoption of this principle, be entirely rooted out.

### **Values Other than Money**

The dominant value in our society is money. It is the expression of both the capitalist model of competitive social and economic relations and of a world that increasingly relies on material criteria to measure success or failure of any human endeavour. The search for money has become an end in itself instead of serving a higher purpose. This material motivation has pervaded a management practice that has been geared solely towards maximizing profits for the business organization itself. All other purposes have been relegated to the background. This profit maximizing approach leads to the reinforcement of competitive behaviours where immediate benefits are emphasized even if achieved at the expense of other groups of people and future generations. Recognition of the interdependence of the human race and that the global challenges of our age require a unity of purpose and action will lead to the addition of other objectives to the concept of utility objectives such as protection of the environment, social responsibility, promotion of diversity and the realization of the potential of the individual. The maximization of such utility will then become the main challenge of management practice.



## **Long Term Vision**

The competitive model of relationships based on profit maximization provides a short term vision at the expense of the longer perspective on which sustainable development and long lasting prosperity can be achieved. Indeed, the greatest responsibility and contribution of today's economic and social agent is to promote a better world for future generations. As long as present conflict-based relationships predominate, society will be unable to free itself sufficiently from short term objectives to face and prepare for the future. Every business, every manager must come to terms with the principle that future well-being has its roots in the present.

## **Empowerment of the Individual**

In most organizations, the exercise of power and decision-making has been concentrated in the hands of a few. There is often a large gap between the few who take decisions and the many who live with them. This pattern of decision-making, on the one hand, suggests a lack of motivation and responsibility on the part of the many and, on the other, deprives the decision-making process of valuable contributions. However, when the individual's potential and his integration within a social organization or community are realized, he is empowered. Without such empowerment, he can never take his destiny into his own hands and assume full responsibility for himself and the community or group to which he belongs. Within business organizations, the empowerment of the individual is achieved only through the use of candid, dispassionate and cordial consultation where the 'shining spark of truth' can emerge from 'the clash of differing opinions'<sup>12</sup> and the expression of diversity. Consultation promotes the mobilization of everyone around an agreed objective and 'where a unified will exists, nothing can effectively oppose and hamper the forces of constructive development'.<sup>13</sup> The European Bahá'í Business Forum suggests that consultation is the best vehicle for constructive and effective decision-making and proposes a framework and spirit under which it can operate.

## **Conclusion**

As we have seen, the potential benefits to be reaped from the emergence of a small business sector can be very great. Indeed, agriculture alone will not be able to break the poverty spiral and the process of depopulation witnessed in most rural areas of the third world. The challenge of restoring pride in rural livelihoods and bringing back life to a decaying social structure calls for new forms of activity, grass root participation and responsibility led by a new spirit of cooperation and service. These new forms of activity in the countryside should focus more and more on small non-farm activities structured as business organizations where individual development coexists harmoniously with a collective sense of purpose and vision. Successfully implementing this dual task is the challenge facing management practice. There are many guidelines that management practice can adopt to achieve this aim but the fundamental criteria for success will be the adoption of an ethic that will provide the motivation and liberate the energy required to translate these guidelines into action.

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