

VENTURE FORMATION

Community-Owned Venture Development

Description

As an alternative to a program solely fostering traditional privately-owned local businesses, the CEDO may decide to create its own ventures. The CEDO becomes the entrepreneur and, like any entrepreneur, goes through the entire process of launching a business. Here is meant a business wholly-owned by the CEDO, in contrast to a CEDO joint venture with a partner (see [Joint Venture](#)) or a venture for which all initial shares are sold off to community residents. As has been mentioned in the discussion of various services for business development, CEDOs involved in creating their own businesses need to go through the same processes of venture development as any entrepreneur.

Perhaps the best known instances of this sort of CED initiative are the ventures started by the Human Resources Development Association (HRDA) in Halifax, Nova Scotia. This organization originally found its capital in grants from the municipal welfare department which provided funds on condition that social assistance recipients were hired as workers in the ventures. This innovative financing was a key capital ingredient, but the businesses otherwise are outstanding cases of CEDO-originated and –owned ventures. More than 15 business have been started over the years since HRDA was founded in 1978. Not all have succeeded. Some were simply closed as losing too much money; others were sold off as unlikely to grow sufficiently. But over-all profitability has been enough to start new businesses, without capital grants.

Benefits

Instead of having to rely upon the uncertain evolution of businesses by private individuals, the CEDO can push the creation of local jobs by itself starting businesses. Quite apart from the number and quality of jobs created, the business can represent a way to earn future revenues for the CEDO. Generally speaking, however, such revenues will be far down the road as surpluses will initially be required for re-investment and expansion in the venture itself.

Among the other possible benefits for the CEDO are a favourable visibility in the community and a favourable status for relations with banks on other projects. For the community itself, the firm can represent opening a new type of industry (diversification); tax base

enhancement; increasing the variety or range of price and quality in the local supply of goods and services; leverage and competition with firms that need to improve their community citizenship; etc. Also, each CEDO business may stimulate private entrepreneurs into their own ventures or into expansions, perhaps to serve or complement the CEDO's firm. Thus the community-owned venture can give momentum to the private process of local business development. And still another pay-off with this CED tool is the fact that the business can be started and run in accordance with local values and needs, for example, with regard to environmental considerations or employment of people with disabilities. The CEDO will be making the decisions, not someone who is simply concerned with making a profit.

Major challenges

As with conventional businesses, a CEDO-owned venture has the critical task of assuring sustainability - that is, not just breaking even but generating surpluses that can strengthen and expand the business and make it last. If it were so easy to start and run a profitable business, there would be a lot more of them!

An additional problem for a CEDO, in contrast to private sector firms, is the fact that it must justify itself in the private market as being just the same as any other business - i.e., paying taxes, following the laws, etc. - even though it is also maintaining social goals in its launch and management of the venture. Too often, community-owned businesses are criticized improperly as unfair competition for conventionally-owned firms. It often derives from the erroneous assumption that the CEDO somehow has government behind it because it (often) has received some government grants at some point in its life. In spite of the fact that government supports of all kinds (including even grants from time to time) go to private businesses, critics may single out the CEDO as somehow especially favoured. That mistaken but potentially dangerous criticism has to be headed off, from the beginning.

Finally, as with any entrepreneur, a CEDO can really get fixated on a particular venture idea and pursue it blindly when the signs have already pointed to its necessary rejection.

Some practical steps

1. The CEDO must establish its criteria for selecting one venture idea over any other for exploration. There are many possible considerations that can govern venture selection, including the degree of risk, the capital needed, the job types to be created, the industry sector in relation to existing local industry, the CEDO's own management resources, etc. All these criteria must be weighed for their relative significance to the CEDO, its goals and its community in order to develop meaningful venture selection criteria.
2. Once the choice is made, then responsibility for exploring and developing the business must be clearly located. Committees do not make good business developers. So usually

some chief individual must be designated - even if s/he must have the help of others, even if who that chief person is may change along the way, and even though the CEDO board must always assume ultimate corporate responsibility.

3. Thereupon the feasibility process begins.
4. If the checkpoints of the feasibility activity turn out, then a full-scale review that results in a business plan is undertaken.
5. Since it is rare that a CEDO can make the total necessary investment from its own resources, others will be solicited for participation.
6. A final deal is negotiated, and ultimately approved by the CEDO board.

Resource organizations & contacts

The type of venture will suggest the kind of expertise that must be called upon. If the project is a shopping centre, there are specialists in that; if it is a lumber mill, the same is true. In all instances, however, specialists are used to working with private firms, not CEDOs. For this reason, it is useful to seek out technical assistance groups that work with CEDOs, acting as generalists in the process, with specialized content experts recruited, depending upon the industry and project structure. The Canadian CED Network offers entry to virtually all the relevant technical assistance groups. (Call toll-free: 877-202-2268.)

Publications

- Stewart E. Perry, *Developing a Business Venture: A Manual for Community Groups* (fax: 617-497-7614). An accessibly written introduction that is widely used.
- ***Case Study:** "HRDA Enterprises, Ltd." Using social assistance funds as capital, in ten years the Human Resources Development Association helped more than 1400 Halifax residents go from welfare to work. HRDA is a good example of the power of capital under the management of a mission-driven, community-based organization. (A wide range of other relevant publications may also be obtained through the CED Bookshop toll-free 888-255-6779).
- ***Case Study:** "Crafting Sustainable Development." The use of venture development filters to secure specific community benefits (in this case, businesses that are sustainable socially, economically, and environmentally) has been well demonstrated by Coastal Enterprises, Inc. of Maine.