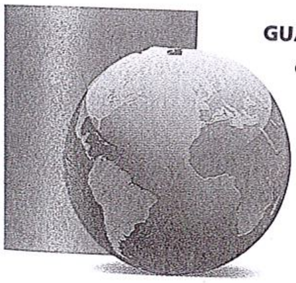
CASE 7

Guajilote Cooperativo Forestal, Honduras

Nathan Nebbe and J. David Hunger



GUAJILOTE (PRONOUNCED WA-HEE-LOW-TAY) COOPERATIVO FORESTAL WAS A FORESTRY cooperative that operated out of Chaparral, a small village located in the buffer zone of La Muralla National Park in Honduras' Olancho province. Olancho was one of 18 Honduran provinces and was located inland, bordering Nicaragua. The cooperative was one result of a relatively new movement among international donor agencies promoting sustainable economic development of developing countries' natural resources.[1] A cooperative in Honduras was similar to a cooperative in the United States: It was an enterprise jointly owned and operated by members who used its facilities and services.

Guajilote was founded in 1991 as a component of a USAID (United States Agency for International Development) project. The project attempted to develop La Muralla National Park as an administrative and socioeconomic model that COHDEFOR (the Honduran forestry development service) could transfer to Honduras' other national parks. The Guajilote Cooperativo Forestal was given the right to exploit naturally fallen (not chopped down) mahogany trees in La Muralla's buffer zone. Thus far, it was the only venture in Honduras with this right. A buffer zone was the designated area within a park's boundaries but outside its core protected zone. People were allowed to live and engage in economically sustainable activities within this buffer zone.

In 1998, Guajilote was facing some important issues and concerns that could affect not only its future growth but its very survival. For one thing, the amount of mahogany wood was limited and was increasingly being threatened by forest fires, illegal logging, and slash-and-burn agriculture. If the total number of mahogany trees continued to decline, trade in its wood could be restricted internationally. For another, the cooperative had no way to transport its wood to market and was thus forced to accept low prices for its wood from the only distributor in the area. What could be done to guarantee the survival of the cooperative?

Operations

Guajilote's work activities included three operations using very simple technologies. First, members searched the area to locate appropriate fallen trees. This, in itself, could be very difficult since mahogany trees were naturally rare. These trees were found at elevations up to 1800 meters (5400 feet) and normally were found singly or in small clusters of no more than four to eight trees per hectare (2.2 acres).[2]

Finding fallen mahogany in La Muralla's buffer zone was hampered due to the area's steep and sometimes treacherous terrain. (*La Muralla* means "steep wall of rock" in Spanish.) The work was affected by the weather. For example, more downed trees were available during the wet season due to storms and higher soil moisture—leading to the uprooting of trees.

Second, the cooperative set up a temporary hand-sawmill as close as possible to a fallen tree. Due to the steep terrain, it was often difficult to find a suitable location nearby to operate the hand-sawmill. Once a suitable work location was found, men used a large cross-cut saw to disassemble the tree into various components. The disassembling process was a long and arduous process that could take weeks for an especially large tree. The length of time it took to process a tree depended on the tree's size—mature mahogany trees could be gigantic. Tree size thus affected how many trees Guajilote was able to process in a year.

Third, after a tree was disassembled, the wood was either carried out of the forest using a combination of mule and human power or floated down a stream or river. Even if a stream happened to be near a fallen tree, it was typically usable only during the wet season. The wood was then sold to a distributor who, in turn, transported it via trucks to the cities to sell to furniture makers for a profit.

Guajilote's permit to use fallen mahogany was originally granted in 1991 for a 10-year period by COHDEFOR. The permit was simply written, and stated that if Guajilote restricted itself to downed mahogany, its permit renewal should be granted automatically. The administrator of the area's COHDEFOR office indicated that if things remained as they were, Guajilote should not have any problem obtaining renewal in 2001. Given the nature of Honduran politics, however, nothing could be completely assured.

In 1998, Guajilote's mahogany was still sold as a commodity. The cooperative did very little to add value to its product. Nevertheless, the continuing depletion of mahogany trees around the world meant that the remaining wood should increase in value over time.

Management and Human Resources

Santos Munguia, 29 years old, had been Guajilote's leader since 1995. Although Munguia had only a primary school education, he was energetic and intelligent and had proven to be a very skillful politician. In addition to directing Guajilote, Munguia farmed a small parcel of land and raised a few head of cattle. He was also involved in local politics.

Munguia had joined the cooperative in 1994. Although he had not been one of Guajilote's original members, he quickly became its de facto leader in 1995 when he renegotiated a better price for the sale of the cooperative's wood.

Before Munguia joined the cooperative, Guajilote had been receiving between 3 and 4 lempiras ($0.37, or 11 lempiras to the dollar) per foot of cut mahogany from its sole distributor, Juan Suazo. No other distributors were available in this remote location. The distributor transported the wood to Tegucigalpa or San Pedro Sula and sold it for 16 to 18 lempiras per foot. Believing that Suazo was taking advantage of the cooperative, Munguia negotiated a price increase to 7 to 8 lempiras per foot ($0.60 to $0.62 per foot at the July 15, 1998, exchange rate) by putting political pressure on Suazo. The distributor agreed to the price increase only after a police investigation had been launched to investigate his business dealings. (Rumors circulated that Suazo was transporting and selling illegally logged mahogany by mixing it with that purchased from Guajilote.)

Munguia: El Caudillo

After renegotiating successfully with the cooperative's distributor, Munguia quickly became the group's caudillo (strong man). The caudillo was a Latin American political and social institution. A caudillo was a (typically male) purveyor of patronage. All decisions went through him and were usually made by him. A caudillo was often revered, feared, and hated at the same time because of the power he wielded. Munguia was viewed by many in the area as an ascending caudillo because of his leadership of Guajilote.

Guajilote did not operate in a democratic fashion. Munguia made all the decisions—sometimes with input from his second in command and nephew, Miguel Flores Munguia—and handled all of Guajilote's financial matters. Guajilote's members did not seem to have a problem with this management style. The prevailing opinion seemed to be that Guajilote was a lot better off with Munguia running the show by himself than with more involvement by the members. One man put the members' view very succinctly: "Santos, he saved us (from Suazo, from COHDEFOR, from ourselves)."

Guajilote's organizational structure emphasized Munguia's importance. He was alone at the top in his role as decision maker. If, in the future, Munguia became more involved in politics and other ventures that could take him out of Chaparral (possibly for long periods of time), he would very likely be forced to spend less time with Guajilote's operations. Munguia's leadership has been of key importance to Guajilote's maturing as both a work group and as a business. In 1998, there did not seem to be another person in the cooperative that could take Munguia's place.

Guajilote's Members

When founded, the cooperative had been composed of 15 members. Members were initially selected for the cooperative by employees of USAID and COHDEFOR. The number of employees has held steady over time. Since the cooperative's founding, three original members have quit; four others were allowed to join. Although no specific reasons were given for members leaving, it appeared to be because of personality differences, family problems, or differences of opinion. No money had been paid to them when they left the cooperative. In 1998, there were 16 members in the cooperative.

None of Guajilote's members had any education beyond primary school. Many of the members had no schooling at all and were illiterate. As a whole, the group knew little of markets or business practices.

Guajilote's existence has had an important impact on its members. One member stated that before he had joined Guajilote, he was lucky to have made 2000 lempiras in a year, whereas he now made around 1000 to 1500 in one month as a member of the cooperative. He stated that all five of his children were in school, something that he could not have afforded previously. Before joining the cooperative, he had been involved in subsistence farming and other activities that brought in a small amount of money and food. He said that his children had been required previously to work as soon as they were able. As a simple farmer, he often had to leave his family to find work, mostly migrant farm work, to help his family survive. Because of Guajilote, his family now had enough to eat, and he was able to be home with his family.

This was a common story among Guajilote's members. The general improvement in its members' quality of life also appeared to have strengthened the cooperative members' personal bonds with each other.

Financial Situation

No formal public financial records were available. As head of the cooperative, Munguia kept informal records. Guajilote's 1997 revenues were approximately 288,000 lempiras (US$22,153). (Revenues for 1996 were not available.) Guajilote processed around 36,000 feet of wood during 1997. Very little of the money was held back for capital improvement purchases due to the operation's simple material needs. Capital expenditures for 1997 included a mule plus materials needed to maintain Guajilote's large cross-cut saws.

Each of Guajilote's 16 members was paid an average of about 1,500 lempiras (US$113) per month in 1997 and 1,300 lempiras (US$100) per month in 1996. 1998 payments per month had been similar to 1997's payments, according to Guajilote's members. Money was paid to members based on their participation in Guajilote's operations.

There was conjecture, among some workers, that Munguia and his second in charge were paying themselves more than the other members were receiving. When Munguia was asked if he received a higher wage than the others because of his administrative position in the group, he responded that everything was distributed evenly. An employee of COHDEFOR indicated, however, that Munguia had purchased a house in La Union—the largest town in the area. That person conjectured, based on this evidence, that Munguia was likely receiving more from the cooperative than were the other members.

Issues Facing the Cooperative

Guajilote's size and growth potential were limited by the amount of mahogany it could produce in a year. Mahogany was fairly rare in the forest, and Guajilote was legally restricted to downed trees. Moreover, with the difficulties of finding, processing by hand, and then moving the wood out of the forest, Guajilote was further restricted in the quantity of wood it could handle.

Lack of transportation was a major problem for Guajilote. The cooperative had been unable to secure the capital needed to buy its own truck; lending through legitimate sources was very tight in Honduras and enterprises like Guajilote did not typically have access to lines of credit. Although the prices the cooperative was receiving for its wood had improved, the men still thought that the distributor, Juan Suazo, was not paying them what the wood was worth. It was argued that when demand was high for mahogany, the cooperative gave up as much as 10 lempiras per foot in sales to Suazo. Guajilote could conceivably double its revenues if it could somehow haul its wood to Honduras' major market centers and sell it without use of a distributor. The closest market center was Tegucigalpa—three to four hours from Chaparral on dangerous, often rain-soaked, mountain roads.

A Possibility

Some of the members of Guajilote wondered if the cooperative could do better financially by skipping the distributor completely. It was possible that some specialty shops (chains and independents) and catalogs throughout the world might be interested in selling high-quality mahogany furniture (i.e., chests or chairs) that were produced in an environmentally friendly manner. Guajilote, unfortunately, had no highly skilled carpenters or furniture makers in its membership. There were, however, a couple towns in Honduras with highly skilled furniture makers who worked on a contract basis.

A U.S. citizen with a furniture export business in Honduras worked with a number of independent furniture makers on contract to make miniature ornamental chairs. This exporter reviewed Guajilote's situation and concluded that the cooperative might be able to make and market furniture very profitably—even if it had to go through an exporter to find suitable markets. Upon studying Guajilote's operations, he estimated that Guajilote might be able to more than treble its revenues. In order to do this, however, the exporter felt that Guajilote would have to overcome problems with transportation and upgrade its administrative competence. Guajilote would need to utilize the talents of its members more if it were to widen its operational scope. It would have to purchase trucks and hire drivers to transport the wood over treacherous mountain roads. The role of administrator would become much more demanding, thus forcing Munguia to delegate some authority to others in the cooperative.

Concerns

In spite of Guajilote's improved outlook, there were many concerns that could affect the cooperative's future. A serious concern was the threat of deforestation through fires, illegal logging (i.e., poaching of mahogany as well as clear cutting), and slash-and-burn agriculture.

Small fires were typically set to prepare soils for planting and to help clear new areas for cultivation. Often these fires were either not well supervised or burned out of the control of the people starting them. Due to the 1998 drought, the number of out-of-control forest fires had been far greater than normal. There seemed to be a consensus among Hondurans that 1998 would be one of the worst years for forest fires. Mahogany and tropical deciduous forests are not fire-resistant. Fires not only kill adult and young mahogany trees, but they also destroy their seeds.[3] Mahogany could therefore be quickly eliminated from a site. Each year, Guajilote lost more area from which it could take mahogany.

To make matters worse, many Hondurans considered the area around La Muralla National Park to be a frontier open to settlement by landless campesinos (peasant farmers). In fleeing poverty and desertification, people were migrating to the Olancho province in large numbers.[4] Not only did they clear the forests for cultivation, but they also cut wood for fuel and for use in building their homes. Most of the new settlements were being established in the area's best mahogany growing habitats.

Another concern was that of potential restrictions by CITIES (the international convention on trade in endangered species). Although trade in mahogany was still permitted, it was supposed to be monitored very closely. If the populations of the 12 mahogany species continued to decrease, it was possible that mahogany would be given even greater protection under the CITIES framework. This could include even tighter restrictions on the trade in mahogany or could even result in an outright ban similar to the worldwide ban on ivory trading.

NOTES

1. K. Norsworthy, *Inside Honduras* (Albuquerque, NM: Inter-Hemispheric Education Resource, 1993), pp. 133–138.
2. H. Lamprecht, *Silviculture in the Tropics* (Hamburg, Germany: Verlag, 1989), pp. 245–246.
3. Ibid.
4. K. Norsworthy, *Inside Honduras*, pp. 133–138.

Guajilote Case

AnalysisEnvironmental Analysis – SWOT

Strengths

•Dedicated members/loyal workforce
•Powerful leader/strong leadership
•Strong relationship with gov't/exclusive rights to harvest
•Higher wages
•Sustainable practices
•High morale among employees
•Knowledge of the local environment
•Cheap labour

Weaknesses

•Centralized leadership, high power distance between leader and employees
•Tension/distrust among membership and leadership
•Lack of technology in harvesting procedures
•Lack of formal reporting and processes (ie. Financial reporting)
•Profitability/Investment power
•Heavy reliance on distributor and Government licensing
•Lack of education/training of members/no succession plan
•Access to financing

Opportunities
•Add value/vertical integration to eliminate need for distributor
•Green movement as marketing initiative
•Incorporate technology to increase efficiencies
•Increasing mahogany prices•
Government relations may provide security and provide opportunity for better bargaining position
•Internal advancement and training for members to improve opportunities in the future•

Threats

Climate/slash and burn/illegal deforestation•
Losing the permit to harvest from the Government
•Migration into the harvesting area
•Lack of resources/aid/support
•Mahogany may become endangered/restricted
•Corrupt government may make exclusive rights unstable

PESTPolitical/Legal
•Unstable/corrupt government (threat)
•Leader involved in politics, could be influential (opportunity)
•Trade bans/tariffs (threat)
•Environmental legislation (threat)Economic
•No government funding available for the cooperative (threat)
•Lack of access to credit to expand the business or improve processes (threat)
•Lack of Infrastructure to harvest and move mahogany (threat)
•Decrease in supply – scarcity (threat)
•High unemployment, low wages, give Guajilote advantage in gaining access to labour pool because everyone wants to work there;

Competitive advantage: Guajilote is the only functioning industry since they are the only ones who can cut and export trees regarding illegal industries. However, it is using partially its competitive advantage due to the fact that its logistics is outsourced and can’t take full control of its product which leads to suazo gaining part of the company’s profit. By eliminating channels members, the competitive advantage in Guajilote will increase. Guajilote is the only one in this area as nobody offers mahogany in the region. Despite the fact that, Guajilote's mahogany is still sold as a commodity and the cooperative did almost nothing to increase the value of its item, However the value of the woods will increase over time.

1. What is your impression of Guajilote as a business venture?

In my opinion Guajilote is a growing business with many future opportunities but the organization does not have a very stable look due to the political structure of Honduras, different interests of the supporting organizations and the government, their contradictions, lack of education of cooperative members, illegal activities and climate of the region. Especially the lack of education may avoid the cooperative members to understand and use new opportunities. Guajilote's work activities are really though and require many efforts. However the business still cannot earn a fair profit due to the distributor monopoly in the area.
Cooperatives are considered as democratically controlled organizations but we cannot see this in Guajilote. All decisions go through and made by Munguia as the caudillo who is actually not capable of managing all aspects of an organization except his political ties and skills in negotiations. The worst part is Guajilote's members do not seem to have a problem with this management style and they accept the situation
There are rumours that Munguia is receiving more from the cooperative than were the other members. However, there are no formal public financial records available to understand whether he received more from the cooperative than the other members or not. The organization needs some transparency in accounting and finance. Munguia should also be forced to delegate some authority to others in the cooperative in order to avoid possible problems in the future. This is necessary to create a fair environment in the organization. Involvement of other experienced members can help the organization during the decision process.

Answering the first 4 questions:

1. The strengths and weaknesses of Guajilote are:

- Strengths:
  - The cooperatives had high success ratio for business
  - Transformational leadership of Santos Munguia
  - High quality of mahogany wood
  - Only venture in Honduras to exploit naturally fallen mahogany trees
- Weaknesses:
  - Limited amount of mahogany woods
  - Restricted distribution access
  - Steep terrain limiting access

2. The threats and opportunities of Guajilote are:

- Threats:
  - Increasing rate of forest fires
  - Illegal logging depleting the resources
  - The practice of slash and burn agriculture
- Opportunities:
  - The cooperative can be extended to other types of wood like teak
  - Buffer zone can be extended to enhance business and employment opportunities
  - Enhance the distribution network of the cooperative so that dependence on distributor can be managed

3. The strategic factors which the Guajilote cooperative was facing, are:

- The limited availability of Mahogany wood
- Restricted distribution network, which limits the international trade
- Lack of skilled labor in the cooperative

4. There is no distinct core competencies of Guajilote cooperative. They were not capitalizing on the quality of mahogany wood and the various opportunities available to them to increase their overall business, by adding considerable value to the mahogany woods.

valuable.

- The continuing depletion of mahogany stocks around the world means that the price for mahogany will steadily rise. If Guajilote has a monopoly on the right to harvest downed mahogany in the buffer zone, it should do well even if the supply of downed tree's drops.
- If the cooperative could transport its wood to the major population centers, it could sell directly to furniture makers and thus increase its selling price and any profits.
- Guajilote could begin to make its own furniture for export.
- A worldwide environmental movement may provide Guajilote a competitive advantage due to the way its wood is naturally harvested and processed.
- Since Guajilote is the first venture in Honduras to be given the rights to downed mahogany in a forest buffer zone, it is likely that it could obtain similar rights to do the same in the buffer zones around other Honduran forested parks.

Threats

- The CITIES international convention on trade may increasingly restrict the sale of mahogany wood, thus killing the market for the cooperative's only product.
- Deforestation from forest fires, illegal logging, and slash and burn agriculture may reduce the amount of trees available to the cooperative and thus significantly reduce future sales.
- Increasing settlement by campesinos around the park will likely reduce the number of trees in the area.
- Santos Munguia may have made an enemy of the cooperative's distributor, Suazo, when Munguia applied political pressure to increase the cooperative's sales price. Suazo could attempt to get even by hurting the cooperative in some way, especially if the cooperative decides to sell directly to furniture makers.
- A change in the Honduras political climate could adversely affect Munguia and Guajilote. The government could chose not to renew the cooperative's permit to use fallen mahogany in the buffer zone. This would be disastrous. If some other strong man (even better connected than Munguia) thinks that the cooperative is making a lot of money, he might act to replace Munguia with a lackey who could drain Guajilote of its cash to the detriment of its members.

Falling world supply of mahogany	05	5	25	Price will increase
Sell direct	10	2	20	Go to furniture makers.
Make own furniture	05	1	05	Make what?
Obtain rights in other ranks	20	1	20	Expand production
Become true forestal	10	2	20	Grow own trees.
Aging population	20	4	80	Content fits population needs.
Threats				
Cities convention	05	3	15	Restrict saves.
Deforestation	10	2	20	Cuts supply.
Campesinos	20	3	60	Cutting supply.
Suazo as enemy	05	4	20	May sabotage.
Political climate	10	4	40	Could lose rights.
TOTAL SCORES	1.00		2.45	

Strengths

- The cooperative has capable leadership in the person of Santos Munguia. He is respected by the members and seems capable of organizing the work and making sure that the members receive good wages.
- Munguia has good political connections which he is able to put to use for the good of the cooperative. This enables the cooperative to counter the bargaining power of its sole distributor.
- Guajilote currently has a monopoly position with its permit to harvest fallen mahogany trees in La Muralla National Park's buffer zone.
- One strength that Guajilote possesses, but does not appear to realize, is that its mahogany is environmentally friendly. This may be the cooperative's distinctive competence—a strength providing competitive advantage.

Weaknesses

- Guajilote has only one product and it is sold as a commodity.
- The cooperative has no way to transport its wood to major population centers.
- Production is limited by the availability of downed mahogany trees in the buffer zone.
- The cooperative does not seem to be planning for growth. It puts no money aside for future major equipment purchase and has no thoughts for expanding its franchise to harvest other kinds of wood in the current forest or doing the same work in other forested locations.
- Its members have very little schooling and may need substantial training to contribute to a more extensive business venture.
- Guajilote is dependent upon one distributor. Suazo was a middleman of questionable reputation who was milking Guajilote for its cash.
- Aside from his nephew, there appears to be no backup to the current leader if Santos Munguia is incapacitated or loses interest in managing the cooperative. If Munguia neglects Guajilote in favor of other opportunities, it could have a very negative impact on Guajilote's future.

Key Internal Factors	Weight	Rating	Weighted Score	Comments
Strengths				
Capable leadership	.20	2	.40	Munguia is leader.
Good political connections	.10	5	.50	Key to doing business.
Monopoly position in mahogany	.05	4	.20	Only one in rank.
Environmentally friendly	.05	2	.10	Only use fallen trees.
Employee morale	.10	3	.30	Little turnover.
Weaknesses				
Only one product	.05	2	.10	Only mahogany.
Dependent on distributor	.10	4	.40	No transportation.
Production limited	.20	1	.20	Restricted to cut trees.
Little education	.05	2	.10	Members illiterate.
No executive backup	.10	3	.30	Questionable nephew.
TOTAL SCORES	1.00		2.60	