



- PN-ABT-047 ISBN 91019

---

**Self-Governing**

---

**and Entrepreneurial**

---

**Solutions:**

---

**A Handbook**

---

**ICS**

INTERNATIONAL CENTER FOR SELF-GOVERNANCE

PN-ABT-047  
isn 91019

Self-Governing and  
Entrepreneurial Solutions:  
A Handbook



INTERNATIONAL CENTER FOR SELF-GOVFRNANCE  
SAN FRANCISCO, CA.

A

# Contents

<i>Chapter 1</i>	<b>Seeking a Better Way</b>	<b>1</b>
	The failure of top-down development	
<i>Chapter 2</i>	<b>Three Factors of Human Development in Individuals</b>	<b>5</b>
	Thinking	
	Feeling	
	Acting	
<i>Chapter 3</i>	<b>Eight Principles of Human Development in Organizations</b>	<b>8</b>
	Clear boundaries must be defined	
	Benefits must exceed costs	
	Collective choice arrangements must frame decision making	
	Effective monitoring must be carried out	
	Rule breaking must be met with graduated sanctions	
	Members need access to legitimate and fair ways to resolve conflict	
	The governing polity must recognize the right of citizens to organize	
	Enterprises can be productively nested	
<i>Chapter 4</i>	<b>Two Examples of Human Development in Institutions</b>	<b>21</b>
	An institutional framework for the right to organize	
	An institutional framework for clear organizational boundaries	

- Chapter 5* **Five Steps to the Self-Governing and Entrepreneurial Way of Life** **26**
- Recognize and use valuable experience you already have
  - Start small
  - Create nested organizations from small beginnings
  - Seek and use enabling institutions
  - Work toward creating more enabling institutions in your society
- Chapter 6* **Six Features of the Self-Governing Society** **29**
- Protecting fundamental individual rights within systems of rule-ordered relationships
  - Collective decision making by the individuals affected
  - Fair methods of conflict resolution
  - Balancing power with power
  - Multiple levels of action and organization
  - An enabling environment
- Chapter 7* **Five Benefits of Self-Governance** **41**
- It promotes freedom
  - It actualizes human potential
  - It makes greater use of human capital—individual, cultural, and social
  - It builds strong communities
  - It solves problems
- Keeping Self-Governance Alive



©1994 Institute for Contemporary Studies

The International Center for Self-Governance (ICSG) is dedicated to promoting the self-governing and entrepreneurial way of life. ICSG works to encourage individuals and groups at all levels of society to organize themselves, set their own rules, pool their talents, and manage their own resources in order to enhance their own and their nations' well-being. ICSG is supported by a grant from the United States Agency for International Development.

ICSG is a program of  
the Institute for Contemporary Studies (ICS),  
a nonprofit and nonpartisan public policy research institution.  
Robert B. Hawkins, Jr., President and Chief Executive Officer  
Sam T. Harper, Chief Operating Officer

For more information, please call or write to:

Elise Paylan Schoux, Director  
International Center for Self-Governance (ICSG)  
Institute for Contemporary Studies (ICS)  
720 Market Street, Fifth Floor  
San Francisco, California 94102  
United States of America

Telephone: (415) 981-5353 extension 226  
Fax: (415) 986-4878

ISBN 1-55815-310-1

## Acknowledgment

This publication—*Self-Governing and Entrepreneurial Solutions: A Handbook*—was authored by a number of distinguished scholars, and the International Center for Self-Governance gratefully acknowledges all their efforts and patience in its development. Writers were:

William Blomquist—Associate professor, Department of Political Science, Indiana University, Indianapolis

Robert B. Hawkins, Jr.—President and chief executive officer, Institute for Contemporary Studies, San Francisco, California

Joe O. Rogers—President, Institute for Free Enterprise Development, Vienna, Virginia

Elise Paylan Schoux—Director, International Center for Self-Governance, Institute for Contemporary Studies, San Francisco, California

Patricia Summerside—Freelance writer and editor, Master of Arts in Anthropology, former Peace Corps volunteer in Kenya, Pierre, South Dakota

Michael J. Kloess—Editor, ICS Press, San Francisco, California



## Seeking a Better Way

The pursuit by ordinary citizens of greater individual freedom and choice is rooted in the belief that every human being possesses inalienable natural rights and deserves the dignity of individual liberty.

Human societies should protect those rights and promote that dignity. *Political democracies* and *market economies* are essential features of societies that advance individual freedom and choice for all citizens. The political and economic freedoms associated with democracy and markets are intertwined—neither can fully flourish without the other.

*Self-governance is a way of life that maximizes the capacity, the right, and the responsibility of men and women to make the fundamental choices that affect their lives and communities.*

But political democracies and market economies do not just happen. They are complex social systems, and their construction requires deliberate choices and purposeful actions by individuals working together. Sustaining an open society is equally challenging. Tyrannies of the few or the many can emerge at any time, even in societies with long histories of freedom.

There are no perfect models of a free, just, and prosperous society that has avoided or overcome

*Entrepreneurship in men and women means that they focus on what can be done. They face what appear to be obstacles and work to overcome them. They are masters of their own destiny—not victims.*

every challenge. We must think instead in terms of key questions and fundamental principles. How can people fashion societies that promote and protect freedom and choice? What are the characteristics of an open, democratic, and prosperous society, and what fundamental principles do those characteristics reflect?

The key characteristics of a democratic society are not particular organizational forms or institutional rules. They are rather the ways people live, interact, and create organizations.

Two key characteristics shared by a wide variety of prosperous, democratic societies are *self-governance* and *entrepreneurship*. Self-governance and entrepreneurship do not come from blueprints or master plans. They are *a way of life—a better way of life* for creating and sustaining political and economic freedom.

The self-governing and entrepreneurial way of life is based on the belief that men and women have the capacity, right, and responsibility to make the fundamental decisions that affect them and their communities. This belief is supported by a growing body of experience and research indicating that this way of life creates more productive solutions to problems of economic, political, and social development. This handbook outlines the key concepts that citizens, policy makers, and experts can use to build self-governing and entrepreneurial action into their lives. It is designed to start people on the path to living a more productive and satisfying life.



---

## The Failure of Top-down Development

That men and women have the right and the capacity to make fundamental decisions implies an active notion of life: People are more than clients and consumers. People are the primary producers of public and private goods and services. They also create human, material, financial, social, and cultural capital that enriches their lives and promises a brighter future to their children. The creation of political, economic, and social wealth is the goal of the self-governing and entrepreneurial way of life.

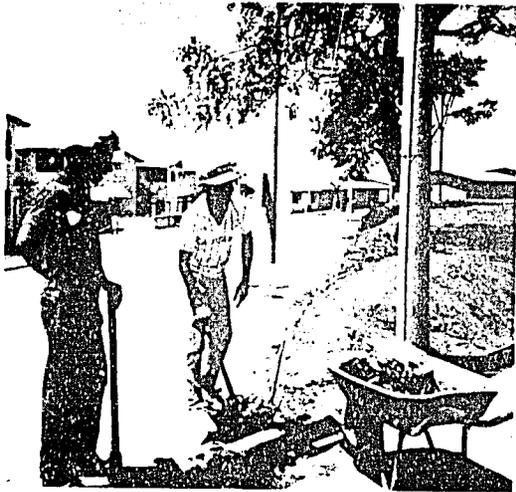
This active life of self-governance and entrepreneurship is essential to development—of individuals, neighborhoods, villages, cities, and nations. For the past forty years, efforts at development have focused mainly on building stronger governmental bureaucracies which were supposed to rationally and scientifically direct resources. The evidence is in, and it is overwhelming: The bureaucratic approach to development has failed in place after place, time after time.

Communities are now looking for alternatives that sustain real human development. The self-governing and entrepreneurial way of life offers a set of alternatives that puts people first, and gives them a real stake in development. We believe that this way of life has the greatest chance of generating solutions for seemingly intractable problems. The **On-Farm Water Management Project** in the Dominican Republic, the **GUARARI housing project** in San Jose, Costa Rica, and a **community-based forest organization**

*Things done without me  
are done against me.*

—African Proverb

in the Dhading District of Nepal are examples of people solving problems in self-governing, entrepreneurial ways. These projects have found innovative ways to tap the potential for human development in their respective locations.



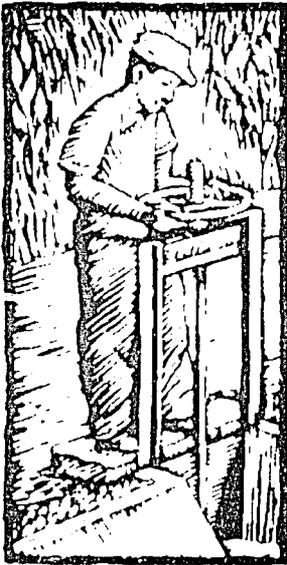
*Organized eight years ago by two NGOs in Costa Rica and financed by a government-sponsored bank, the **GUARARI housing project** provides housing for low-income households, many of them headed by single women. A household must contribute 900 hours of labor (“sweat equity”) on the construction site before earning eligibility for a solid cement block constructed home, and must then make mortgage payments to the bank. Once the mortgage is paid, usually after 15 years, the home is an asset fully owned by the resident and can be sold or transferred. The GUARARI project is currently home to approximately 786 families.*



**Human development takes place at three levels: individual, organizational, and institutional.** All three levels influence every human decision. The next three chapters explore development at each of these levels.

able to design, implement, maintain, and change their institutions and organizations. They do not rely on accident, fate, or force.

Reflecting on and choosing among alternatives is a habit of thought that reduces error and makes it likelier that the choices made will maximize individual and organizational productivity. A society that encourages and nurtures these capacities will be a better, more productive society.



*At the **On-Farm Water Management Project in Azua**, the Dominican Republic, farmers clean the canals, establish allocation rules, and pay water user fees. In return, project members use the fees to maintain equipment, to provide water when needed, and to grow three cycles of crops each year. In addition, families have enough income for their children to pursue education, community entrepreneurs provide harvest and marketing services to growers, and the water user group is considering a cooperative agribusiness venture.*

*An achievement that the farmers have attained since they organized the **Junta de Regantes** around the irrigation system is a great participation in decision making. In addition to successfully managing their system, they are able to negotiate prices with buyers and participate in seed production programs; and recently, the government's agriculture bank chose to place resources from the Plan for Economic Recovery of the Azua Valley through the infrastructure of the Junta.* ◀▶▶▶▶▶



## **Three Factors of Human Development in Individuals**

All development springs from individuals. In turn, every individual integrates three basic factors: thinking, feeling, and acting.

### **Thinking**

Two aspects of thought influence the development process. One is the fundamental, holistic way people view their relationships to other people and to the natural world. Whether their worldview is actively constructive, actively destructive, or passively fatalistic will affect people's capacity to imagine or utilize new ways to create wealth. Thus people have patterns of ideas that define the way they perceive opportunity. To build self-governing and entrepreneurial action strategies, we must pay attention to these patterns—to how people talk and think about problems.

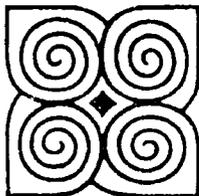
The other way in which development potential depends on ways of thinking is the degree to which each individual has learned to use rational thought processes to critically assess alternatives. A key assumption of self-governance is that societies of men and women—through reflection and choice—are

## **Feeling**

Feelings are the basis of community. Following Aristotle, we can say that men and women are social animals: To be productive, they need to belong to communities that share common purposes and goals. Modernity has made it more difficult to build these communities, because we simultaneously demand both personal autonomy and social bonds. In developing countries and low-income communities, many individuals feel alienated and isolated from the mainstream of society. We must ask ourselves what kinds of organizations and institutions fulfill the human need to belong without sacrificing autonomy. One requirement is that our organizations and institutions have real authority to do real things.

## **Acting**

Self-governing and entrepreneurial individuals are self-directing within the context of culture and the need for cooperation. One of the challenges facing development administrators is to understand that they must play a new role if they want to create self-governing and entrepreneurial projects. The old public administration of command and control must be replaced with one that nurtures the capacities of men and women to be self-governing. Since most projects are focused on problems, our task is to develop individual, organizational, and institutional capacities for addressing and solving problems. We will have to assess the existing levels of these capabilities and construct a plan to maximize them. Real development takes time and patience.



### 3



## **Eight Principles of Human Development in Organizations**

There are times when it is necessary to create new organizations to accomplish goals or solve problems. We may also find existing organizations operating at suboptimal levels that need to be raised. Men and women—through reflection and choice—have the capacity to design, create, and maintain effective organizations. How do they accomplish these tasks?

We have found that self-governing organizations demonstrate eight key principles that maximize chances of success. These rules were defined by Elinor Ostrom and a team of researchers who analyzed successes and failures of irrigation systems around the world. They found that self-governing irrigation systems attain a higher rate of success than top-down projects by following these eight principles based on the experience of others.

These eight principles are the tools that citizens can use to design self-governing organizations. They apply to private, public, or social organizations. Here we will outline them:

### **1. Clear boundaries must be defined**

Clear boundaries are critically important. Boundaries determine who can belong, who can consume the service, where the

service will be provided, and what service will be provided. Where a service is geographically based, boundaries clearly delimit who is in and who is out.

Serious problems result from lack of clear boundaries:

- ❖ Ineffective management because no one is sure what is being managed
- ❖ Low morale because of inadequate specification of who can use resources and in what amounts
- ❖ Difficulty in reaching consensus because of boundaries that are too large or too vague
- ❖ Individuals are unwilling to invest their time or resources because they are not reasonably sure of getting a fair return

*Farmer-managed irrigation systems have firmly established rules that clearly spell out who is permitted to draw water, when they may draw it, the amount they may draw, and where the boundary of the system lies.*



## **2. Benefits must exceed costs**

Nothing can disable an organization faster than a situation in which some members receive excessive benefits, while others pay excessive costs. Benefits must be proportional to effort.

Effort can be measured in terms of money, sweat equity, donated labor, or materials. A school with many low-income parents may require partial cash payments toward tuition, with the remaining cost paid in time spent providing services to the



school. Many irrigation systems require participating farmers to donate time to canal and levee maintenance.

Lack of clear procedures to ensure that benefits exceed costs can cause serious problems that include:

- ❖ Bankruptcy
- ❖ Failure of citizens to become or remain involved
- ❖ Misallocation of resources
- ❖ Weakened support and legitimacy in the relevant community



*In a community-based forest organization in the Dhading District of Nepal, the user group has restrained its use of a previously deforested area for two and a half years. As a result, the native species of trees and shrubs have regenerated. The people in the organization—278 families—are now able to prudently harvest brush and grass to meet needs for fuel and fodder. They have planted trees, including mangos and lychees, which will provide income in the future. More importantly, however, the community organization has gone on to develop clean drinking water systems, a representative management system that includes women, and projects that generate secondary income.*



### 3. Collective choice arrangements must frame decision making

Individuals in a self-governing and entrepreneurial organization must have a voice in determining the rules under which the organization operates. This is a critical principle in both designing and operating an organization.

First, individuals constitute themselves as an organization with an agreed-upon mission. This involves discussions to agree on the purpose and objectives of the organization. The results of the discussion are formalized by agreement on a set of rules that specify how the organization will be governed.

When these rules are joined with rules that outline benefits and costs, we see how many self-governing organizations can operate effectively for years without external authority and threats. The ability to modify these rules is important too, as self-correcting behavior when existing rules do not operate properly, but also simply to enable the organization to periodically reconstitute its rules and reaffirm their legitimacy.

The right to participate in making and changing collective choice rules is one of the key ways individuals create and maintain their stake in organizations.



*The tenant managers of a U.S. government housing project are elected by the residents and choose the rules of acceptable behavior—no drug use, no out-of-wedlock pregnancies for minors, and all children must complete secondary education. The tenant managers monitor compliance with these rules and administer rewards and sanctions to the residents of the project.* ◀▶▶▶



The following weaknesses occur when individuals affected by rules cannot modify them:

- ❖ A faction or an elite group controls the organization
- ❖ The organization has fewer chances to learn and self-correct
- ❖ The rules lose legitimacy among members
- ❖ Membership is unstable and the organization is difficult to manage

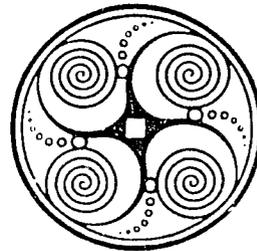
#### **4. Effective monitoring must be carried out**

Monitoring is one of the most important functions of any organization, and the one most frequently ignored because it is considered too costly and time-consuming. Monitoring is essential for learning, accountability, and self-correction.

For monitoring to be effective, several conditions must be met. First, *there must be clear goals and standards* that can be monitored. Second, *the monitors must be directly accountable to the members*, not to some other organization or level of government. (All too often, external monitors work for some other agency which has a hidden agenda.) Third, *monitoring must focus on one or several of the following organizational issues*:

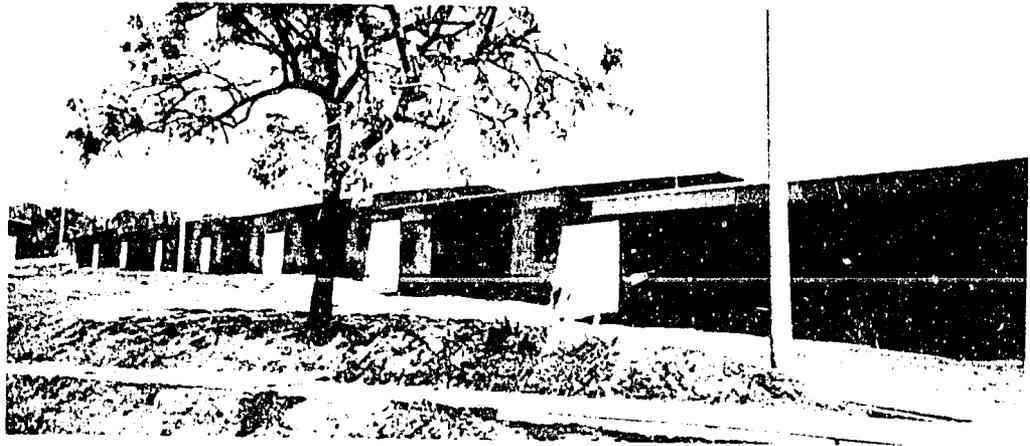
- ❖ *Fiscal and financial data* that clearly communicate to members whether they are meeting their goals
- ❖ Information on *possible alternatives* if present courses of action are not working

- ❖ Information on *whether members are actually following the collective choice and provision rules*
  - ❖ Determination of *whether benefits are exceeding costs*
- Inadequate monitoring results in:
- ❖ Inability to make incremental changes in organizational rules
  - ❖ Free riding by individuals who know they will not be caught
  - ❖ Unnecessary organizational conflict because of inadequate factual information
  - ❖ Failure of organization to achieve goals



*The members of a credit union meet regularly to discuss the demands of their organization and to resolve basic questions, such as selection of the board of directors, lending rates, policies for collecting delinquent payments, and the allocation of earnings.*





*Accountable monitoring systems may be overt or discreet, but they must be in place in a successful self-governing organization. One example of implicit monitoring in action can be found at the **GUARARI housing project** in Costa Rica. The single-women-headed households there make up a community with a deeply developed consensus on shared values. Currently the project is relatively small with 786 residents who are self-selected and strongly dedicated to the project. This and the low-density neighborhood structure permits effective informal monitoring. The residents are all eager to live by the rules of the project, since they contributed substantial amounts of sweat equity to gain entrance to it, helped develop the rules, and do not want to leave the project. However, as the project's entry standards become more lenient, and new people and new problems cause stress to the system, the implicit understanding of the nature and enforcement of the rules may have to give way to an explicit system of monitoring and sanctions.*



## **5. Rule breaking must be met with graduated sanctions**

If men were angels, there would be no need for government. Similarly, in organizations there will always be individuals who are going to violate the rules. For an organization to be self-governing, it must generate internal rules that impose graduated sanctions on violators. Rule enforcement is much more effective in tenant-governed housing, for example, than under top-down management. This reflects the creation of a social order that has legitimacy with the tenants.

Sanctions should be proportional and graduated. For example, in the Kenilworth-Parkside government housing project in Maryland, a tenant who breaks a window must pay \$13.50 for a new window and replace it herself. Tenants who have loud parties in their apartments must donate sixteen hours on a weekend to patrol the project. If they take drugs, they are out of the project.

Organizations without legitimate, graduated sanctions suffer from:

- ❖ Lack of a stable environment in which to produce their services
- ❖ Inability to stop free riding and shirking
- ❖ Lack of organizational cohesion around objectives





*At the **On-Farm Water Management Project** in the Dominican Republic, the farmers have a vested interest in their irrigation system. They have established a clearly defined water allocation system in which all members, even those at the tail end of the canals, receive water when promised. In addition, sluice gates were built by the farmers and are now manned by farmer representatives rather than untrained and inexperienced political appointees. If a farmer does not contribute the required number of hours toward canal maintenance or pay his water fees, there are sanctions against him that may begin with a summons, advance to a fine, and culminate in losing access to the water.*



## **6. Members need access to legitimate and fair ways to resolve conflict**

Unresolved conflict will destroy an organization faster than anything else.

Conflict can arise over the mission of the organization, or over methods of implementing that mission. These kinds of

conflicts can be resolved through normal political and organizational processes. Conflict can also arise over decisions of officials of the organization, or over individuals' rights to undertake certain acts. A self-governing system must achieve consensus on legitimate ways of resolving conflict.

Similarly, when organizations come in conflict with customers or with officials from other organizations, they must have recourse to ways to resolve conflicts. Arbitration and courts are examples of formal mechanisms of conflict resolution. Informal mechanisms can work too, but they must have the consent of those governed by them.

Weak conflict resolution mechanisms cause these problems:

- ❖ Rules that are not operable; people do not follow them
- ❖ Conflicts are resolved through violence
- ❖ Members have only a weak commitment to the organization

## **7. The governing polity must recognize the right of citizens to organize**

No problem is more serious in both developing and developed countries than the lack of adequate rights to organize public and private activities. Without such rights, individuals and groups see little net benefit from organizing new and productive activities. This is one of the primary political causes for a lack of self-governing and entrepreneurial activity. Similarly, when organizations do not have adequate rights to enter into contracts, to make loans or to enforce their rules, they will operate at suboptimal levels.





Weak rights to organize cause these problems:

- ❖ Low levels of entrepreneurial activity
- ❖ Unstable, corrupt, and conflict-ridden organizations
- ❖ Frequent co-optation by higher authorities
- ❖ Inability to grow through normal stages of development
- ❖ Low levels of citizen participation
- ❖ Low levels of member commitment

*The **Instituto Nacional de Recursos Hidraulicos** (INDRHI) — the Dominican Republic government agency in charge of irrigation systems urged the formation of farmer-controlled water user groups, and gave full responsibility for the operation, maintenance, and management of the irrigation system to them. INDRHI brought the physical structures into good and acceptable operating condition and provided additional support that included recognizing their decisions as legitimate, enabling the water user group (Junta de Regantes) to collect and keep the water fees for use in the irrigation system, and providing technical training and expertise.*



The seven organizational principles discussed so far are guides to building an infrastructure within which individuals can pursue entrepreneurial and self-governing activities. Yet

our task is not complete. Many development activities stop when they have developed a plan to create an organization to produce some service, public or private. However, the next step is just as important to the success of long-term development projects.

## **8. Enterprises can be productively nested**

The “nested enterprise” concept is difficult but indispensable in our modern, interdependent world. We know that to begin and to continue dynamic, productive, and sustained activity, individuals and organizations must have broad autonomy to pursue their goals. Overregulation of either the public or the private sector will reduce its productivity.

Yet we also know that problems of scale, negative externalities, and effective operation of complex societies require coordination and interdependent rule. The concept of nested enterprises means that relationships with other organizations and institutions are recognized as essential.

Productively nested enterprises are needed to:

- ❖ Capture economies of scale
- ❖ Overcome negative external effects
- ❖ Insure adequate coordination and cooperation

The absence of productively nested enterprises can cause:

- ❖ Inefficient or suboptimal production of services
- ❖ Negative external effects that degrade service quality or harm others



# 4



## **Two Examples of Human Development in Institutions**

Building productive social, cultural, and political institutions is one of the most important and exciting pathways of development. This chapter introduces institutional analysis, so when you start a project, you will start building its institutional framework at the same time.

In attacking any development problem, you must deal with various levels of authorization. For example, in working on a water project, you must understand water law of the country in which you are working. If you want to build an institutional framework to encourage microenterprise development, you must understand commercial and contract codes, along with financial institutions and courts, as key institutions to channel capital flow and to resolve conflict.

Often a concrete problem is the best guide through a society's institutional web. Seeking a solution will lead you to the institutions that are causing problems. However, you cannot solve all of the institutional problems at one time, so you must prioritize by asking: "Which one or two institutional problems should I focus on first?"

The most serious institutional problems obstruct people's right to organize and an organization's right to define boundaries. A socially supported right to organize helps people realize they have a viable stake in an undertaking. Boundaries enable organizations to focus and to limit their activities by function and scope.

## **1. An institutional framework for the right to organize**

Most societies have a set of rules on how new organizations can be constituted. In countries with prescriptive, Napoleonic systems of law, one of the biggest institutional barriers is the legal fact that all new activities must be prescribed. Every new activity must be prescribed in law, requiring that legislation be passed to authorize the activity. For comparison, we can look at the United States—especially early in this century—and find a completely different institutional environment.

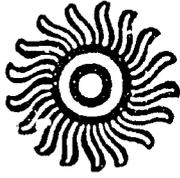
Citizens formed cities and special districts at their own discretion. State constitutions and enabling acts delegated authority to form these units of governments to citizens. One finds similar institutional patterns in forming entrepreneurial activities. An effective enabling environment existed in early twentieth century America.

To determine the institutional structure needed to recognize rights to organize, ask the following:

- ❖ Is authority clearly allocated in the rights of individuals and organizations to pursue new activities in the public and private sectors?

- ❖ If these rights exist, are they enforceable through courts and other organizations designed to protect them?
- ❖ Are there clear and low-cost procedures for individuals and organizations to follow in pursuing new activities? Do these formation procedures protect individuals and organizations from common weaknesses associated with such processes?
- ❖ Are the recognized rights sufficient to give individuals and organizations a real stake and voice in the new activity?
- ❖ Are the rights appropriate for the activity, or are they too general to protect individuals from predatory practices by other organizations?
- ❖ Do the rules establish the general type of organization that can be formed, and specify the fiscal/financial capacities and general rules under which the activity must operate?
- ❖ Are there formation rules that specify procedures that must be followed in order for individuals and organizations to constitute themselves?





***Botswana's** traditional institution of self-governance, the kgotla, or public meeting, has helped to establish that country as one of Africa's few working democracies. Because of Britain's indirect rule and the small settler population during the colonial period, Botswana's traditional leaders were able to keep their social position and preserve the institutions of participatory government. The tribal chiefs and elders were the leaders who carried out the political transition to independence when British rule ended in 1966. These traditional leaders, who represented the larger Tswana ethnic groups and cattle interests, had wide popular acceptance, as well as constitutional legitimacy.*

*The tradition of the kgotla has continued to serve as a valuable institution in modern Botswana—the chiefs and elders serve as moderators between the central government and local interests. Botswana has made the transition from a traditional to a modern society, and its economic condition is much different from the rest of sub-Saharan Africa.*

*In 1989, sub-Saharan Africa, with a population of approximately 450 million people, generated a gross domestic product (GDP) of \$135 billion—\$300 per capita. The foreign debt of \$143 billion was the highest in the developing world. In 1988, Botswana showed a real growth rate of 14 percent, with per capita GDP of \$1,450. Two years later, in 1990, Botswana posted \$2.7 billion in foreign exchange reserves, with foreign debt at approximately \$324 million.*

Source: John F. Sullivan and George B. N. Ayittey



## **2. An institutional framework for clear organizational boundaries**

All economic, political, and social activities must have boundaries. There must be clear rules regarding who can participate, what rights they bring to any activity, and what liabilities they are exposed to.

The institutional prerequisites of clear boundaries are:

- ❖ Rules that specify how physical boundaries can be established. These rules generally will not specify boundaries, but will specify who has standing and voice to determine boundaries
- ❖ Rules that specify how an organization can establish who its members can be

Each of our eight principles of successful organizational development has institutional prerequisites similar to the ones cited earlier for “rights to organize” and “clear boundaries.” With an awareness of how the larger society influences organizational opportunity, you can build self-governing and entrepreneurial action into your life.

*Tenant managers of the Kenilworth-Parkside government housing project in Maryland, the United States, are able to screen out and evict from the property those not committed to the institution, such as drug dealers, other criminals, vagrants, and vandals.*



## 5



# Five Steps to the Self-Governing and Entrepreneurial Way of Life

Equipped with the concepts discussed in earlier chapters, you are ready to build self-governing and entrepreneurial capabilities into your own life and your own cultural, political, and social environment. You may find it useful to follow these steps:

1. Recognize and use valuable experience you already have
2. Start small!
3. Create nested organizations out of the small one(s) you began with
4. Seek and use enabling institutions
5. Work to create the most-needed enabling institutions not already in place

### **1. Recognize and use valuable experience you already have**

In every society, people have learned to organize collective endeavors, even in societies that do not particularly encourage them to do so. Underground enterprises and black markets

represent the exercise of entrepreneurial and organizational skills in unfavorable environments (regimes that restrict economic freedom).

In every society, organizing households, practicing cultural traditions and rituals, and producing and distributing goods and services are characterized by teamwork, exchange, reciprocity, leadership, and entrepreneurial skills. The poorest members of a society have often developed extraordinary skills just to survive, and directing these skills into legitimate entrepreneurial activity can bear fruit.

## **2. Start small**

People can learn to be self-governing in small-scale organizations such as households and families, churches, neighborhoods, associations, and villages. In these small collectivities, people learn to order their interactions without frequent recourse to governmental sanctions. Almost everyone belongs to some small groups like these.

## **3. Create nested organizations from small beginnings**

It is often possible to build upon the small organizations of everyday life to create greater opportunity. An example would be the knitting together of farmers' groups or villages to create a larger network of common interest. Nested enterprises can eventually even transcend national boundaries.



## **4. Seek and use enabling institutions**

In most societies, some enabling institutions such as local councils, legislatures, and courts do exist. Rules of incorporation may either facilitate or impede the formation of enterprises;

where they facilitate, they should be used. Making maximal use of existing institutions will help build self-governing enterprises that command recognition from external authorities, rather than being relegated to “outlaw” status.

## **5. Work toward creating more enabling institutions in your society**

This is a challenging and long-term task. To help you develop a “feel” for the kind of enabling society in which freedom and innovation flourish, the next chapter takes a look at the things that characterize a self-governing (and enabling) society.



***The On-Farm Water Management Project** began as a way to solve an assortment of problems: irrigation water was often unavailable, high water tables saturated land needed for crops, canals were poorly maintained, water fees were largely uncollected, and water masters were untrained and inexperienced political appointees. Today, the farmers who own and operate this project are free from such problems.*





## **Six Features of the Self-Governing Society**

A self-governing society (one that promotes and protects self-governance as a way of life) rests upon fundamental principles. These principles empower people to shape the course of their own economic and political development. They can be summarized in a half dozen “ways of doing things”:

- ❖ Protection of fundamental individual rights within systems of rule-ordered relations
- ❖ Collective decision making by the individuals affected
- ❖ Fair methods of conflict resolution
- ❖ Balancing power with power
- ❖ Multiple levels of action and organization
- ❖ Maintaining an enabling institutional environment

These principles can be discussed separately, but they are interdependent—each enhances the others.

It is important to emphasize that we are discussing basic principles, not offering an organizational design or social blueprint. Differences in the physical circumstances, cultures, and histories of peoples will strongly affect the particular shapes and forms given to these principles. Cultural traditions should



represent valuable accumulated experience in ordering human interactions.

Blueprints for establishing organizational forms have been tried again and again in development projects. However, these attempts—usually directed by central governments or outside donors—have neither performed well nor become self-sustaining. Channeling people into predesigned organizational forms has nothing to do with achieving self-governance. Authority in these kinds of experiments remains centralized and top-down. In contrast, self-governance requires that people define the terms on which relationships are established and choices are made, within the context of time-tested principles.

### ***The First Principle: Protecting Fundamental Individual Rights within Systems of Rule-ordered Relationships***

At the core of a self-governing society are free individuals. Such individuals must be able to engage in discussion, debate, and choice. They must be able to hold one another and designated officials accountable. These activities require that individuals have certain protected fundamental rights.

One fundamental right is the *right of expression*. A society that does not protect the individual's right to speak or act in ways that articulate desires and dissatisfactions is not free.

An equally fundamental right of individuals in a self-governing society is the *right to organize* and associate with others on terms agreed upon by mutual design and consent. The right of citizens to design and to establish their own organizations and institutions is essential. If individuals with common interests

cannot create associations to advance their own purposes without interference, prospects for finding constructive ways to solve problems are sharply reduced, and the protection of other rights is severely eroded.



Another fundamental right is the *right to due process* of law. Due process entails fair opportunities to be heard, fair procedures for hearing claims and defenses, and means of challenging arbitrary or unauthorized actions. Individuals who cannot assert this right are not citizens, but mere subjects at the mercy of the state.

Protection of fundamental individual rights depends on *rule-ordered relations* that apply to the exercise of authority. This is the key characteristic known as the “rule of law,” usually associated with a constitutional system that specifies and restricts the





authority of individuals vested with power. Individuals in a self-governing society are entitled to be governed by general rules that apply to everyone rather than by the exercise of special political influence and personal privilege. The individual rights of self-governing citizens must be enforceable, and persons who impede the exercise of those rights must be held accountable.

### ***The Second Principle: Collective Decision Making by the Individuals Affected***

In a self-governing society, people who are affected by collective decisions should be included in the making of those decisions, and persons who are not affected should be excluded from making those decisions.

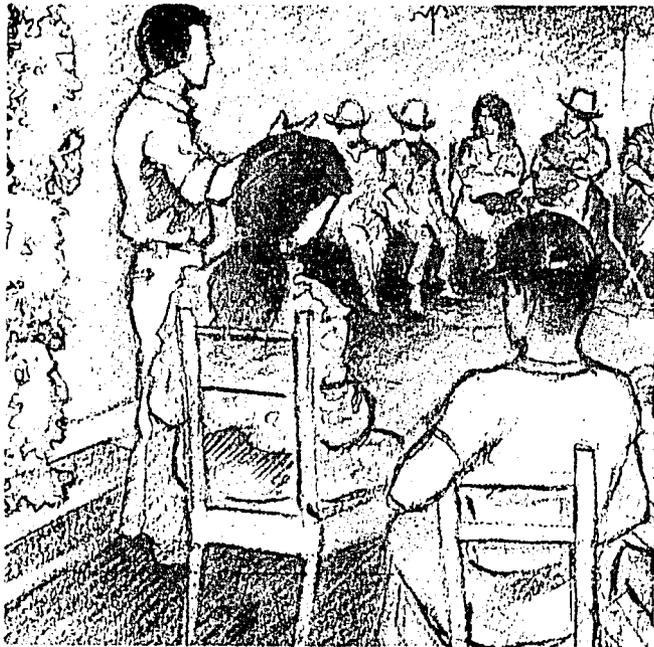
The principle of collective decision making is indispensable to realizing the advantages of a self-governing society. The implications follow:

- ❖ Each decision-making process should, to the greatest extent possible, encompass all affected individuals
- ❖ We must abandon the idea of a single center of sovereign authority
- ❖ A society of any consequential size will thus have many collective decision-making forms

The principle of collective decision making is linked to the right to organize. If individuals are free to engage in entrepreneurship (creating their own organizations), they are more likely to develop forums for collective decision making.

### ***The Third Principle: Fair Methods of Conflict Resolution***

A collective action does not mean people will agree. The benefits and burdens of a collective endeavor may fall unevenly across the members of a group. The question then becomes how to address such differences while promoting and protecting self-governance. The third fundamental principle of a self-governing society, therefore, is the availability of fair ways to resolve conflict.



In a state-governed society, guided by a single center of authority that supposedly pursues the common interest of all members, the very idea of conflict is problematic. State-governed societies have often degenerated toward conditions where conflict is avoided or repressed. Avoiding or repressing conflict is incompatible with the idea of a self-governing society, where individuals are primarily responsible for defining their interests and ordering their interactions.

Earlier we emphasized the importance of rule-ordered interactions. In a self-governing society where people order their interactions according to rules, conflict over interpreting and applying rules will arise. Recourse to fair methods for resolving such conflicts becomes even more important than it would be in a society characterized by a single source of rules.



Conflict and conflict resolution can help to uncover information about individual preferences. Institutional arrangements for resolving conflicts through discussion and negotiation can elicit the information needed to fairly examine and resolve each conflict.

The likelihood of conflict makes designing fair ways to resolve conflict an important entrepreneurial task in creating a self-governing enterprise. As with rule compliance, if those affected have a stake in the forming of conflict resolution methods, they are more likely to abide by the outcome.

### ***The Fourth Principle: Balancing Power with Power***

Conflict resolution, collective decision making, and rule-ordered relations all suggest a significant role in self-governing societies for the exercise of legitimate authority by designated officials or functionaries. On the other hand, the idea of self-governance is (at first glance) inconsistent with decision making by some over others. How can the existence of positions of authority be reconciled with self-governance?

Any assignment of public authority and responsibility to an individual carries the risk that the authority will not be discharged properly and the responsibility will not be fulfilled. As James Madison wrote, "If angels were to govern men, neither external nor internal controls on government would be necessary. . . . but experience has taught mankind the wisdom of auxiliary precautions." This point applies to authority in non-governmental organizations as well.

If assigning authority and responsibility to individuals is unavoidable, how can a self-governing society make these

assignments without inviting abuse? Earlier, we referred to the rule of law: the rulers as well as the ruled are subject to codes governing their conduct. While this is necessary to a self-governing society, it is not sufficient. Rules that govern rulers are not self-enforcing. Therefore, another fundamental principle of a self-governing society is balancing power with power.

At the societal level, the presence of an independent private sector of economic activity balances the power of the public sector of political activity, and vice versa. Within that public sector, dividing authority across offices and among geographic levels of government also helps to balance power with power.

Individuals in positions of governmental authority must be monitored and checked by others. There must be penalties for the abuse of authority. Those who interpret, monitor, and enforce rules must be monitored.

Who will watch the watchers? In a self-governing society, that responsibility falls to the citizens. This responsibility is much easier when public authorities are accessible to the people they serve. Distance from the people diminishes the information and understanding they need to exercise this monitoring responsibility.

### ***The Fifth Principle: Multiple Levels of Action and Organization***

The first four principles make it impossible for a self-governing society to rely on a single level or scale of organization. Collective decisions for a household or a neighborhood or a village will have to be on a different scale of organization than collective decisions for a watershed, a province, or a nation.





Multiple levels of action and organization are essential to the self-governing society.

The ordinary, daily relationships of individuals in a self-governing society are ordered by rules. Those rules are the outcomes of collective decisions made by the individuals affected or their designees. But collective decisions are themselves governed by procedures and processes—constitutional rules—that define who is included, how discussion will be undertaken, and how individual expressions aggregate into group decisions.

Individuals should be able to make constitutional-level decisions about how collective decisions will be made, and then be able to participate in those collective decisions that affect their day-to-day lives.

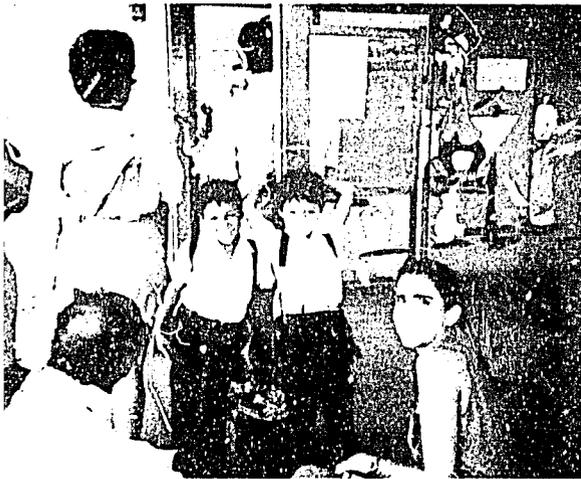
The constitutional and collective choice levels of action do not refer solely to governmental affairs. All levels of human organization (households, associations, corporations, nation-states) must determine:

- ❖ Who will exercise authority and on what terms
- ❖ Who will be included in collective decisions and in what ways
- ❖ How rules will be established and enforced; how conflicts will be addressed and resolved

When individuals form an association of any kind, they engage in constitutional-level action concerning its form, membership, and decision-making procedures. Members of the association then make collective decisions within these rules,

and operate within the constraints of the collective decisions they have made. If they experience problems in their interactions with one another, they may move back to the collective choice level and alter rules there. They may even reconstitute the association so that collective decision making occurs under different procedures than before.

People shift among multiple levels of action all the time in all arenas of life. In so doing, they acquire the skills and habits of social organization needed to sustain a society that does not depend on a single center of authority. Multiple levels of action and organization are fundamental to the self-governing society.



***The Club 16 of August**—named after the historic day when the Dominican Republic regained its independence from Haiti—was started in 1976 by Bernardo Medina and several of his friends. Since then, they have built a small two-story school with nine rooms that operates in three shifts a day, educating 500 children and 200 adults. With minimal help from the government, this school represents what is truly public. Here, local citizens have banded together to create an organization that meets a real need. Board members, teachers, students, and community leaders are all part of a team whose goal is to make an investment in the next generation.*





### ***The Sixth Principle: An Enabling Environment***

Facilitating individuals' actions to constitute their own social lives and make their own collective decisions is an essential feature of a self-governing society. This facilitative aspect is the enabling environment.

The basic organizing principle of an enabling environment is that all actions not expressly forbidden are permitted. This principle, referred to in the West as the "common law" tradition, is consistent with the idea of a self-governing society.

Individuals in all societies organize collective activities inside or outside the bounds of formal governmental permission. What varies is the extent to which governments recognize and encourage those actions. When forced to act outside these bounds, individuals organize extralegal arrangements that always stand exposed to actions by governmental officials to thwart their efforts or close them down.

Central government officials, pursuing their own objectives and jealous of their own power, face temptations to recentralize power at the expense of self-governing organizations.

***An enabling environment***  
*is one in which communities are empowered with the necessary political, legal, and financial authority so that they may manage their own affairs.*

### ***No Enabling Environment in Peru***

*As a rule, politicians in Peru have felt that the country that they govern is made up of "foolish and dishonest men." It may be for this reason that so many of Peru's laws are eminently control-oriented. Government supervision is exaggerated in all areas where the autonomous decision of the community is nominally required.*

*There are virtually no channels for participation in drafting and applying laws. This has prompted most democratically organized communities to disregard any laws about which they have not been consulted and to govern themselves on the basis of their own standards.*

*In San Nicolás, farmers opted to divide their land, but the law would not recognize ownership of the individual parcels unless a long string of cumbersome and high-cost requirements had been met.*



These tendencies must be countered. At a minimum, government officials should avoid inhibiting the entrepreneurial activity of formulating rules to coordinate productive action. Beyond that, the presence of successful self-organizing activities and self-governance generally can be increased if central government officials facilitate their creation, maintenance, and adaptation. An enabling environment involves fostering a "culture of entrepreneurship" that encourages individuals to organize enterprises both inside and outside the ordinary domain of government.





An enabling environment is the opposite of a state-governed society that relies on the government to solve problems. An enabling environment empowers and encourages citizens to develop diverse problem-solving institutions (including ways to make collective decisions and ways to resolve conflict) at many levels of organization. An enabling environment is therefore a defining feature of a self-governing society.





## Five Benefits of Self-Governance

Why is the self-governing and entrepreneurial way of life good? It sounds like a lot of hard and complicated work: constituting and maintaining enterprises to build wealth and solve problems. Why bother? Why not just let “the government” solve social problems?

The self-governing society has decisive advantages over the state-governed society. People prefer self-governance because:

- ❖ It promotes freedom as a fundamental human value
- ❖ It actualizes human potential
- ❖ It makes greater use of human capital (individual, cultural, and social)
- ❖ It builds strong communities
- ❖ It facilitates effective problem solving

Self-governance is at root an issue of *human freedom*. Human beings desire to be free, to make their own choices, to achieve their potential and to enjoy the fruits of their achievements with their families. The self-governing society is based on this essential, enduring quality of the human spirit.

*I am helpless to  
do anything  
about my  
circumstances.  
As bad as it is,  
I might as well  
accept it.*

—The Fatalist

*Everyone deserves to be given equal outcomes—housing, cash payments, food, transportation, health care, and education. The rich should make sacrifices to ensure that the poor have equal amounts of these things.*

—The Egalitarian

Another universal trait of human beings is their desire to develop their own abilities and talents. Because self-governance requires active participation in every aspect of life, individuals in a self-governing society are both freed and challenged to *develop skills and abilities*. This striving to develop one's potential to accomplish something in the world is at the core of the self-governing and entrepreneurial way of life.

Self-governance makes *maximal use of a society's human capital*. Like other investments, investments in human capital are most likely to be made when the returns are greatest. Thus, investments in human capital are more likely to be made in a self-governing society, one that:

- ❖ Honors individuals' ability and authority to order their mutual interactions
- ❖ Respects the relationships that people have developed over time
- ❖ Allows people to retain the products of their efforts

The self-governing society has *real communities*: communities of interest defined and developed by the people within them. Some people associate individual liberty and democratic societies with an atomistic existence. Nothing could be more wrong. An atomistic existence requires no governance; it will also generate few successful or sustainable enterprises.

Self-governance is a social, cooperative ideal that entails taking other individuals into account. A democratic society



is infused with a complex network of institutional rules and behavioral customs that link us together and place some limits on individual actions.

In a self-governing society, individuals are empowered to create their own communities. Therefore, individuals accept the limits and follow the rules and customs that define and sustain communities. There are many examples in developing areas of the difficulties that arise when authentic communities are not nurtured by external authorities. Even in highly developed societies, serious problems arise from erosion of communities.



*The distribution of water used to be managed by 17 employees of the government of the Dominican Republic. Now, distribution is through 249 sluice gates built by the farmers with each gate managed by a farmer representative. Because of poor maintenance and illegal diversion, it formerly took 48 hours to irrigate 30 tareas (about 5 acres) of land. Now, the same area takes 6 to 15 hours to irrigate. Before, over 50 percent of the land was not irrigated, mostly that which belongs to farmers at the end of canals. Now, water is distributed equitably among all farmers. There used to be frequent conflicts, violence, and arguments over the water. Now, these conflicts have been reduced to the minimum. Before the establishment of the Junta de Regantes, the government collected about 15 percent of the assessed water fees. Now that the farmers are paying the money to the junta—really themselves—the collection rate is 75 to 80 percent.*



Self-governance and entrepreneurship also promote *effective problem solving*. Social problems are too numerous and complex to be handled well by a single center of authority or a single problem solver. No matter how skilled, well-chosen, or well-intentioned government officials may be, they cannot effectively address or solve all problems that arise in organizing productive relationships in a society.

*I will make the rules because I know what is in the best interest of others.*

—The Hierarchical Bureaucrat

*The experts and bureaucrats in the government know how best to handle things, and so I will live by their rules.*

—The Client of the Bureaucrat

This is an important reason for favoring markets—an essential feature of self-governing societies. Functioning markets solve huge production, distribution, and resource allocation

problems every day without depending on a sole information-processing or decision-making center. In contrast, government officials who have tried to write regulations to guide production or distribution decisions have found themselves faced with an impossible task.

*All for one,  
and one for all.*

—The Self-Governing Individual



A society organized on principles of self-governance does a better job of solving complex problems. It generates better information by allowing decisions to be made by those directly affected. Self-governance and entrepreneurship also foster innovation because diverse enterprises are better positioned to develop and test ideas than a single center.

---

## Keeping Self-Governance Alive

Self-governance is a desirable and attainable way of life. However, even after a substantially self-governing society has come into being, maintaining it is a continuing challenge. Self-governance does not come with guarantees. It has a “use it or lose it” character—if not maintained, it erodes.

Alexis de Tocqueville wrote that the “science of association” was the “mother of sciences” in democratic societies. He predicted that democratic experiments would ultimately fail if people neglected the cultivation of this science of association. If people lose the habit of constituting their own enterprises and their own relationships, if they neglect participation in associational life, and if they consent to being directed instead



of insisting upon self-direction, they risk atrophy of their self-governance capabilities. To leave social problems and economic development in the hands of "the government" is a temptation, but the results eventually disappoint almost everyone.

People learn *how to be self-governing* by *being self-governing*. A self-governing society cannot be declared; it must be made and remade in the daily lives of individuals. The virtues and rewards of the self-governing and entrepreneurial way of life are well worth the effort.

