
Mahaguthi Shops

KATHMANDU, NEPAL

The Mahaguthi case focuses on the potential and feasibility of exporting for Mahaguthi Shops, a nonprofit handicraft producer, wholesaler, retailer, and exporter that supports Nepali crafts people and a community social service organization. In a developing country, growing industry and expanding commerce face many obstacles. Surendra is contemplating fundamental issues for Mahaguthi's future. After experiencing continued growth for eight years, the drop in sales growth raises serious concerns about Mahaguthi's future. At present, Mahaguthi faces obstacles to expansion in both the local and export markets. While the case leads one to believe that an export campaign must be started immediately to supplement sales, Mahaguthi is not really prepared to launch into exporting.

There are a number of problems limiting Mahaguthi's ability to export successfully. Both the lack of infrastructure (power cuts, poorly maintained roads, communication difficulties) and the lack of government support are conditions beyond Mahaguthi's control. Insufficient production capacity, lack of quality control, and insufficient managerial and administrative support restrict the future expansion of the business.

One possible direction Mahaguthi could follow would be to bring more production in-house. In this way, the problems of poor communication and distribution that arise with rural producers could be alleviated. It would also be easier to ensure both quality control and the timeliness of production with an in-house production unit. Orders would not be taken if they were beyond Mahaguthi's true production capacity.

However, if Mahaguthi brings more production in-house this would mean providing less support to rural disadvantaged producers. This might sacrifice Mahaguthi's founding principles—to provide income generating activity for poor and disadvantaged groups within Nepal. Should Mahaguthi pursue the goal of providing income generating activities for the disadvantaged, even if this means sacrificing quality, reliability, and profits? No. If Mahaguthi does not profit, the producers will not profit either. Therefore, it is in everyone's best interest for Mahaguthi to focus on profits. Students should recognize that founding principles are subject to change and can and should be reevaluated on a regular basis.

The future of Mahaguthi would be very different if they were to separate from NCPGSM and register as a small industry with the Cottage Industry Development Board. This option should be fully explored by the student. Questions such as "Why is Mahaguthi rechanneling their profits to the Ashram and the producers?" and "Are the founding principles still applicable in today's environment?" should be discussed. The author would argue that the founding principles should be reevaluated.

In order to focus on profits, Mahaguthi needs to address the business-related concerns of the quality and reliability of products. One way to do this would be to leave the development work, i.e., the training and support of disadvantaged producers, to someone else.

There are two main concerns that must be addressed if Mahaguthi is to consider turning over its developmental

role to another organization. First, Mahaguthi's tax-free status as a social service organization would be jeopardized. Second, the claim that they channel the profits to impoverished craft producers is a powerful marketing tool that would be sacrificed if Mahaguthi changed their status. Third is the cultural stigma attached to private industry in Nepal; many consider business to be "dirty." While the first two barriers may be removed by showing that the numbers have minimal impact, the third barrier of cultural stigma would be much more difficult to overcome. As Surrendra questions at the end of the case, the lack of motivated human resources might cause serious problems. Students should recognize that different cultures have different value systems and different motivators.

Currently, Mahaguthi is spread too thin. They are understaffed and lack focus. By attempting to provide producer support and social development programs, in addition to producing, distributing, and marketing crafts, the existing Mahaguthi staff is overburdened. Consequently all activities suffer. The staff is not professionally trained to provide training and development. Mahaguthi could focus on in-house production and marketing and leave the development work to professionally trained economic development experts (of which there are plenty in Nepal). Mahaguthi could continue to support rural producers financially by donating profits to a local NGO that works on rural income generating projects.

After reading the socioeconomic notes and the case, the reader should recognize the numerous problems resulting from the Nepali government's policies and the country's development status. These are important issues for any business considering working in a less-developed country (LDC). In recent years many companies have moved manufacturing businesses to Asia to take advantage of cheap labor and government incentives. However, before making a decision to move overseas, companies must thoroughly research all existing conditions. In Nepal the cheap labor is offset by the overwhelming lack of infrastructure. In spite of the government's trade promotion policies, they are not "walking the talk." Prospective businesses must ensure that government's actions match their words. Otherwise supposed government incentives can quickly turn to disincentives.

The U.S. State Department has numerous agencies that assist prospective businesses with country-specific issues and questions. In Nepal a few industries have managed to attract foreign investment; these include Tibetan rugs, garments, and a few financial institutions. There is also potential foreign investment opportunities in the tourism sector.

An important concept that should not be overlooked in the Mahaguthi case is the applicability of business concepts to a charitable organization. Regardless of where Mahaguthi's profits go, the organization faces management, marketing, and distribution problems that challenge any business. While it is important for the student to recognize the similarities between a charitable organization and a profit-making, privately or publicly held company, it is just as important to understand the differences. Mahaguthi's charitable status raises some unique concerns.

The roles of government, International Nongovernmental Organizations (INGOs), and foreign government assistance programs are all crucial to understanding the institutional and cultural environment affecting Mahaguthi. It is also important to consider the role of INGOs and foreign government assistance programs. Many complain that the amount of foreign donor funds poured into Nepal has been counterproductive. Rather than fostering development and independence, Nepali organizations have come to rely on foreign funds and develop charitable organizations rather than private businesses in order to be eligible for donor monies. This phenomena is demonstrated in the number of NGOs formed since the democracy movement began.

For Mahaguthi, the decision whether or not to pursue legal export status raises this issue. As a charitable organization, Mahaguthi is tax-free and eligible for grants. If Mahaguthi breaks away from NCPGSM, it risks losing this status. Similarly, customers are attracted to the idea of contributing to a charitable organization while simultaneously buying souvenirs, and in this way goodwill is one of Mahaguthi's marketing tools. In the past, all of Mahaguthi's export business has been with alternative trade organizations or with wings of INGOs like Oxfam and Caritas.

As Mahaguthi explores its export potential, government becomes a major player. Nepal is moving from a failed import substitution policy to an industrial and export

development program. This shift affects Mahaguthi in two ways. On the import side, Mahaguthi relies heavily on imported raw materials. Should Mahaguthi pursue a direct import relationship with their suppliers rather than relying on the local market? On the export side, HMG is trying to adopt a one window policy that will facilitate export procedures. How will this affect Mahaguthi? In dealing with a country like Nepal, it is important for the student to understand the relationship between government and economic policy and how this affects businesses.

When Nepal pursued an import substitution policy, it was trying to promote the development of industry within the country and reduce the need for imports. (For example, government-run shoe factories were established so Nepalis would not have to import shoes.) Under this policy, industries were developed that were not truly in Nepal's best economic interest (Why should Nepal manufacture shoes if they can import them for less money?) The government promoted certain industries to limit the need for imports. They also put high tariffs on imports. This policy could actually hurt Mahaguthi if it is buying many imported products. On the other hand, an export development policy should benefit Mahaguthi if it wants to export. Nepal has been espousing an export promotion policy for some time, but it is only recently that the government is actually doing something about it.

Nepal has a fledgling democratic government with minimal experience and expertise with free market principles. Its effort to develop a strong economy thus puts it on a path of trial and error. They also are relying on foreign experts. Nepalis have limited tolerance for government. The majority do not pay taxes, and they feel that the government is somehow a puppet of India; this causes resentment. The fact that the government

is recognized as corrupt and inefficient leads many people to try to circumvent its directives and authority. In the past a group of handicraft organizations addressed the government with their problems as a group, a sort of lobbying effort. They made good progress and received an audience with the minister. Unfortunately, a few months later the minister left that position—as so often happens—and they had to start the whole process over again with another individual.

This case offers the student a chance to understand and deal with issues that are unique to Nepal. The absence of intellectual property right laws has a major impact on Mahaguthi and the handicraft industry, as does the inability to legally enforce business contracts. Currently, Mahaguthi does not employ a designer. Without constant innovation in product design, how can Mahaguthi stay ahead of the competition? How can Mahaguthi ensure supply, if producers are not legally bound by contract? Ethical issues also surface. If there is no law, Mahaguthi could simply copy designs of other producers. Should they do this? Will that help them achieve a distinctive position in their market?

UPDATE

Mahaguthi continued to grow, and by 1991/92 their sales had grown to 4.2 million Nepali Rupees. Exports fell to 25% of sales, actually a smaller percentage than at the time of the case. Quality problems typically prevented repeat orders from overseas customers.

Mahaguthi began a training program for rural producers. Producer groups in villages typically had from 1 to 15 people at each location, and they produced items of very mixed quality and delivered their product with questionable reliability. These individuals needed to understand the importance of quality and some basic training in management of production. They came to Kathmandu for a special training seminar.