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Commercial profit or community gain? Business culture in Micronesian countries

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Research School of Pacific and Asian Studies ANU

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n.a.	**Not applicable**
..	**Not available**
-	**Zero**
.	**Insignificant**

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Islands/Australia Program

National Centre for Development Studies
This paper originates in the Islands/Australia Program at the National Centre for Development Studies. The size, geographic isolation and histories of the Pacific island states create special problems. Australia plays an important role in the region, both as an aid donor and trading partner. The National Centre for Development Studies has given priority to research on the islands since 1975. The Islands/Australia Program provides insights, primarily for Australia in its relations with its Pacific neighbours, but also for the island governments and international agencies. This stream of the Economics Division Working Papers widens the former Islands/Australia Working Paper series to encompass research on the area undertaken by other scholars in the Division. The National Centre for Development Studies continues to disseminate analysis of the island economies through its *Pacific Policy Papers, Pacific Research Monographs* and the *Pacific Economic Bulletin*.

Abstract

The aim of this research is to develop a theory of management based on an empirical study of business values, practices and performance in the Federated States of Micronesia and the Republic of the Marshall Islands. Findings from the survey of business owners, employees, customers and traditional leaders are drawn together to develop a picture of Micronesian business.

Community expectations may conflict with the needs of businesses. Strict policies towards practices which may impede adequate cash flow (for example community donations, customer credit and employee loans) are identified as important to business success.

Land tenure issues and ensuing restrictions on access to capital present Micronesian entrepreneurs with special management problems. Theories of business motivation and success are examined from the perspective of Micronesian experience.

Commercial profit or community gain?
Business culture in Micronesian countries

A review of the literature on business and private sector development in Pacific island countries (Pollard and Qalo 1993) reaffirmed the persistence and importance of entrepreneurship in the region. It also highlighted the need for further study of the policies and practices of successful indigenous businesses. A pilot study of successful indigenous businesses in the Federated States of Micronesia and the Republic of the Marshall Islands was therefore conducted and the results form the primary research material for this paper.

An empirical examination of the policies and practices of successful business in Pacific island countries is compared to other management study, in particular the work of Kotter and Heskett (1992) on the US Micronesian and US businesses, industries and business environment may vary to the extreme but the issues under consideration are the same, what is successful business culture? Kotter and Heskett's 'corporate culture' is one that is shared across all groups in a firm, at least within senior management. They develop the concept of strong, appropriate and adaptive cultures. Through incorporating the interests of customers and employees as well as shareholders, this concept helps explain improved corporate performance.

This paper has similar empirical and theoretical intentions. The concept of business culture however is extended to one that incorporates the values and practices of the greater island community. Based on the results of the interviews to date, it appears that indigenous Micronesian businesses succeed by adopting a business culture that, while incorporating the interests of the greater community, also endorses strong commercial policies. The more successful businesses may have reconciled and accommodated the demands of both commerce and the community.

Theoretical foundations

The more prescriptive or traditional theory of the firm assumes that the firm, or business, maximises profits in given cost and demand conditions, with full information and complete certainty, and with no concern for organisational complexity. This theory is powerful in its simplicity, permitting cautious predictions to be made about the behaviour of firms and therefore the operation of markets, and hence, the process of resource allocation in the economy as a whole.

Theorists in industrialised economies have been dissatisfied with traditional theory however as it does not account for the characteristics of the firms in their countries which are large, complex organisations, confronted by imperfect knowledge. These theorists have therefore sought to take account of decision-making under uncertainty in complex organisations and also to account for the special conditions of oligopolistic markets.

Attempts to improve upon traditional theory have concentrated on the objectives of the firm, that is the assumption of profit maximisation. Baumol (1967) distinguishes between the differing interests of shareholders and managers. As managers control of decision-making of the firm and as their rewards depend more on size than on profit so, Baumol argues, firms tend to produce more than they would were they seeking to maximise profits.

Cyert and March (1974) and Simon (1976) reject the assumption that firms wish to maximise profits or any other variable. Rather, as many modern firms are large, complex organisations with a number of interest groups (such as managers, shareholders, customers, employees and suppliers) with individual and sometimes conflicting goals, they propose that the goals of the firm will be a compromise, precluding any maximisation. The theory also stresses the influence of both the process of decision-taking and the organisation of the firm, on decisions taken by the firm. Cyert and Pottinger (1988) further state that it is decision or 'behavioural' rules that need to be studied and that the 'firm develops these rules of thumb as guides for making decisions in a complex environment with uncertainty and incomplete information' (Cyert and Pottinger 1988:214).

In order to refute traditional theory Cyert and Pottinger distinguish between the assumption that firms act in such a way that their profits are at a maximum and the more commonly held assumption that firms seek to maximise profits. The latter tells a convincing story but nonetheless is a story. Cyert and Pottinger (1992:211) argue that 'orthodox micro-economic theory must be replaced by a different theory because its account of the behaviour of individual firms is at odds with the facts about how firms behave, and...because decision-making under uncertainty cannot be handled sensibly in a theory which has the profit maximisation as a substantive assumption'.

Cyert and Pottinger suggest that the way to go about searching for a better theory is to begin by trying to get hold of an empirically satisfactory account of how firms made decisions under uncertainty. One empirical study of successful decision-making in an uncertain environment is that of Kotter and Heskett (1992). Based on studies of 207 firms from twenty-two different US industries the authors argue that a 'corporate culture' that is strong, industry and market-appropriate, and also adaptive, enhances corporate performance. The authors define corporate culture as values and practices that are shared across all groups in a firm. They also state that '[c]ulture represents an interdependent set of values and ways of behaving that are common in a community and that tend to perpetuate themselves, sometimes over long periods of time. This continuity is the product of a variety of social forces that are frequently subtle, bordering on invisible, through which people learn a group's norms and values, are rewarded when they accept them, and are ostracised when they do not' (Kotter and Heskett 1992:141).

According to Kotter and Heskett, corporations that have a strong culture may perform well but this is not a sufficient requirement for success. Some corporations may have an inherently weak culture but have inherited the strong culture of other businesses by merger or other acquisition. Those corporations whose culture, though strong, is out of date with the state of the industry and market may also not perform well. The content of the culture must fit the business environment, that is the industry and market, and the culture must also be capable of adapting over time to changing business conditions for the business to continue to succeed. 'Holding onto a good culture requires being both inflexible with regard to core adaptive values and yet flexible with regard to most practices and other values' (Kotter and Heskett 1992:148). Higher-performing US businesses tend to have a culture that places a high value on all 'stakeholders', that is the customers, employees and shareholders.

The profit maximisation assumption may be an abstraction and may be incomplete but it has guided an understanding of the operations of both firms and markets. As Cyert and Pottinger comment (1988:207–8) '[t]he profit maximisation assumption is empirically refuted, but it is a substantive assumption of orthodox micro-economic theory'. Recent behavioural theories may be more realistic in terms of their description of corporate business but they are also more mathematically complex and can little predict market behaviour and resource allocation. Do the successful businesses of the Pacific employ a Kotter and Heskett-type of business culture that is strong, appropriate and adaptive and that yields to the greater interests of business stakeholders? Alternatively, do the same businesses abide by the Cyert and Pottinger behavioural rules which guide decisions in a complex and uncertain environment, or is the assumption of profit maximisation applicable?

Empirical confirmations

Community preferences for sharing and reciprocal cooperation have played an essential role in maintaining, if not enhancing, individual and communal livelihood in isolated, resource limited, open and highly vulnerable island environments. While specialist skills and some division of labour may contribute to the island communal system, an alternative system based on individualism and accumulation has been discouraged. Alternatives have also been further deterred by the history of repeated failed private enterprise.

A continuing volume of literature does however testify to the history of trade, investment, enterprise and initiative by Pacific islanders. Crocombe's (1989) comments on the pre-colonial period in the region and the empirical studies of Belshaw (1964) of Fiji in the 1950s, Finney (1973, 1987) of Papua New Guinea, Ritterbush of Tonga (1988) and Salisbury (1970) of the Vunamami all record the origin and the persistence of indigenous entrepreneurs within their particular social and cultural environment.

In all these studies the respective society and culture were found to have a major influence on the nature and extent of business. Belshaw (1964:272) was concerned to note that with respect to enterprise many Fijians 'are prepared to act, but that the terms of action are exceedingly onerous in that they imply forms of behavior, insecurities, and supporting institutions which are outside the habitual frames of reference of the Fijians'. Finney's research reveals an intricate web of family and clan support for 'big-man'-led enterprise development. Finney (1973:107) comments that '[e]very Gorokan business leader has at some stage in his career looked to clansmen and other fellow Gorokans to furnish him with resources, monetary and non-monetary, to initiate and operate his commercial ventures'. Salisbury (1970) records how traditional groupings of people, the *kivung*, took to commercial undertakings.

In each commercial setting entrepreneurial objectives, commercial abilities and the commercial environment and opportunities vary. In each case, community support and influence also vary, and in this influence, at least according to Finney (1987), may have changed over time. Finney's Gorokan business leader had to keep both his bank manager and followers happy. Belshaw's entrepreneurs were concerned with more generally acceptable norms of social behaviour. According to Ritterbush (1988:151), in Tonga '[t]he more savvy and successful indigenous businesspersons tended to regard their obligations as a motivating force that pushed them to work harder and therefore earn more money'. In all cases business owners had to balance or accommodate both commercial profit and, in different forms, greater community interest or gain.

Irrespective of any difficulties or opportunities for businesses operating within such communities, each generation produces a new crop of entrepreneurs prepared to tackle just such challenges. Individual entrepreneurial motivation varies but one common trait could be that entrepreneurs are, to some degree or other, at odds with society. As Belshaw (1964) indicated with respect to Fiji, the entrepreneur may have been raised or educated in a manner that is substantially different from his or her peers. In common with Finney's entrepreneurs he or she may also have travelled, worked or otherwise experienced an environment that stimulated an interest in business. The successful entrepreneur may need to achieve, despite and possibly because of, his or her unique position in society.

The majority of small businesses do however fail within their first two years of operation irrespective of the economy and country and Pacific small businesses should not be expected to fare any better than their foreign counterparts. Commercial, economic, social cultural and political parameters are largely set for the entrepreneur, at least in the short term. But some businesses do succeed. What policies and practices do these entrepreneurs employ that enables their business to succeed commercially and in other relevant terms? What is the basic philosophy of business or the business culture that sets the few who succeed apart from the many who fail?

Commerce in Micronesia

As of March 1990, 338 corporations were operating in the Federated States of Micronesia (1993). No similar figure is available for the Republic of the Marshall Islands. In the Federated States of Micronesia commerce is largely confined to the major urban and government centres of Colonia (Yap State), Weno (Chuuk), Kolonia (Pohnpei) and Kosrae. Majuro, Ebeye and Kwalelein atolls are home to most commerce in the Republic of the Marshall Islands. A variety of formal businesses, mostly service sector industries, operate within these centres. Foreign-owned ventures are relatively few, but are often the larger, service sector establishments. Indigenous Micronesian businesses vary in size from the smallest owner-operated stores to ventures with million dollar turnovers covering a range of establishments with many employees. The majority of businesses however approximate to smaller ventures.

Although restricted in location and by size, the private sectors of both countries have grown significantly in recent years. As an indication of this growth in the Republic of the Marshall Islands the number of paid employees in the private sector increased from 2,817 in 1979 to 4,483 or 61 per cent of the total formal, employed labour force in 1991. The Federated States of Micronesia private sector employed 5,820 people in mid-1985, some 19 per cent of the total labour force and 46 per cent of the total formal sector labour force. In both countries the private sector is now a significant employer, and critical to economies that confront rapid population growth and declining aid.

Skilled Micronesian labour is scarce as the immigration laws of the United States, as well as other Micronesian countries, freely allow the people of the Federated States of Micronesia and the Republic of the Marshall Islands to migrate. Some Micronesian businesses have therefore employed foreign labour. Foreign labour supplies the scarce skills needed by a growing economy and society, and these skills stretch beyond those acquired through education and training to an understanding of social and economic transactions that may be new to Micronesia but still of use when adapted to Micronesia's society.

Domestic revenues from the business gross revenue tax in the Republic of the Marshall Islands declined from US$1.4 million in financial year 1985 to US$0.9 million in financial year 1989. This decline was apparently due in part to a failed attempt to introduce a business tax based on net profits. This failure may be more of an issue of weak tax administration than any lack of taxable business profits given the expansion of business in recent years (World Bank 1993:14). The Federated States of Micronesia's collection of the gross revenue tax was also criticised by audits of both 1989 and 1990 according to the *JK Report on Micronesia*, (King 1989, 1900). The Federated States of Micronesia's consolidated general government revenue from business nearly doubled over a five year period, from US$2.8 million in financial year 1986 to $5.2 million in financial year 1991.

Chambers of Commerce have been formed and reformed in the major business centres of both the Federated States of Micronesia and the Republic of the Marshall Islands and Chamber membership and activity has fluctuated over time. The laws of both countries provide for the right of free association, although to date there have been no initiatives to form labour unions in either country. Wages are set by market forces although private sector wage levels in the Republic of the Marshall Islands and in one of the States of the Federated States of Micronesia are subject to minimum wage legislation. There is no legislation concerning maximum hours or occupational safety and health in either country.

The Bank of Hawaii and the Bank of Guam have established branches in the main urban centres of both the Federated States of Micronesia and the Republic of the Marshall Islands. Governments in both countries have established national development banks and the local incorporation of domestic commercial banks, the Bank of the Federated States of Micronesia and the Bank of the Marshall Islands, is an interesting development in local banking. The domestic banks are reported to have larger domestic loan portfolios than their foreign counterparts who have commonly exported excess liquidity. As stated in the Federated States of Micronesia's current development plan, '[t]o date, except in the case of the Bank of the Federated States of Micronesia, local investment has not been very high, partly because of the difficulties faced by many would-be borrowers in providing collateral in a situation where land cannot be used, and partly because higher returns have been available from investment outside' (FSM 1993:86).

The private sector's current contribution to the economies of the Federated States of Micronesia and the Republic of the Marshall Islands should not be overestimated. Indigenous business is curtailed in Micronesia: restricted in size, by industry and by location. In the Marshall Islands (RMI 1991:488) '[p]rivate sector activities are heavily concentrated in secondary sector activities such as construction, transport, communications and trade and in tertiary sector activities such as hotels and restaurants'. And thus far, 'there has been little [private sector] growth in activities involving the use of domestic resources. No large scale commercial agriculture, fisheries or industrial projects have been commenced by the private sector in recent years.' The number of indigenous businesses is growing, but it was with some concern that Carroll (1988:126) noted that 'there were so few of these mature businesses and that most had remained small'.

Similarly in the FSM '[t]he commercial and industrial sectors of all the states primarily consist of small family businesse. With few exceptions, the private sector has largely not embarked on industrial projects' (FSM 1993:179). Based on a 1983 survey of business establishments in the Federated States of Micronesia only 4 per cent of the businesses surveyed were non-service sector businesses. 'Private sector development has therefore contributed little to long term economic development and the establishment of the industrial base that will generate further, linked and induced development' (FSM 1993:179). These sectors remain undeveloped at least insofar as domestic enterprise is concerned.

Domestic business could contribute significantly more to the economies of Micronesia in terms of factor employment and resource allocation and in greater commerce and trade, regardless of industry or sector. Other Pacific economies, such as Fiji and Tonga, demonstrate the potential contribution of domestic business. Countries from other regions illustrate even more clearly the economic potential of private sector activity. The profit-taking of investors engaged in garment manufacture, tourism and tuna harvesting in Micronesia is also indicative of the economic contribution private business can make.

Micronesian business transactions are closely interwoven with social transactions at all levels. Elected political representatives and traditional leaders may have business investments, and any one family may have one or more members engaged in business, another elected to political office, others employed by government, maybe another working in a bank. Small business is therefore embedded in the local, traditional, national and political 'culture' of Micronesia.

Small business owners may employ these close relationships to exact favours that support business and other interests. Petersen (1986) detailed how some Pohnpei store owners used store credit to attract political support. Traditional leaders may employ traditional tenure and relationships as well as modern commerce to maintain the status quo. Carroll (1988:116) states with respect to the Republic of the Marshall Islands that '...as long as traditional rivalries continue, there will be persistent attempts to control the most important determinants of power—land and money. Thus access to these two necessary requirements of indigenous business success will be difficult to achieve, particularly among the Marshallese who are not from the highest traditional social class'. How then have indigenous commercial ventures not only succeeded but, for some, also expanded operations within this environment?

How do small businesses succeed?

In 1993 a detailed pilot survey of indigenous Micronesian business owners was undertaken to test areas of enquiry previously identified (Pollard and Qalo 1993) as likely to influence the managerial performance of small businesses in a Pacific social setting. The research was also designed to provide directions for more intensive research. The emphasis of the initial pilot survey was on management within the local community, personnel management, other resource management, operating finances and pricing and marketing.

Background information was collected on each business including industry of operation, current turnover, staff employed and years in business. All areas of the survey enquiry were concerned with identifying the business parameters and management principles, policies and practices that small businesses adopt in order to succeed in a relatively close, small and partial commercial environment.

Definitions for small, indigenous and successful were based on an earlier literature review (Pollard and Qalo 1993). These definitions emphasise relatively low initial investment, resource employment and turnover, citizenship and business longevity. The owners of each business enterprise were interviewed.[1] Each interview took place over two or three days in order to cover all areas of enquiry and allow the business to continue to operate. Separate subsequent interviews with employees, customers and traditional leaders were also conducted. The respondents were interviewed on the understanding that the results of the interview would be confidential. Although specific details cannot therefore be divulged, the combined comments and general directions are of interest.

The interviewed business enterprises were located in four of the main urban centres of the Federated States of Micronesia and the Republic of the Marshall Islands. Individual business ventures or establishments included furniture manufacture, hotels, restaurants, travel agency, transport, car rental, car repair, construction, retailing, laundry, printing, marketing, farming and fishing. The combined enterprises varied in size, employing from two to thirty-eight employees and had been in operation from three to almost twenty years. Annual turnover was roughly estimated as varying from around US$100,000 to almost US$1 million. This variation in size and longevity is deemed to reflect the nature of indigenous business in these countries. Similar data for other Pacific island countries whose economies have not been influenced by external public financing to the extent of Micronesia may be less variable.

Nearly all the businesses produced for and/or serviced the domestic market. When management policies and practices are reviewed, it is therefore important to note that the businesses are primarily conditioned by the domestic market as opposed to the export market. The businesses interviewed were primarily involved in the provision of services and primary production with little manufacture and limited domestic economic value added. Turnover and profit-taking could therefore be described as comparatively immediate with production management less complex and investment less risky than is the case with manufacturing, processing and secondary industries.

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1 As defined by the Statistics Office of the United Nations an 'enterprise' is a commercial or legal unit which is the owning or controlling unit and may own or operate a number of establishments. The 'establishment' is, ideally, an economic unit which engages in one or predominantly one business activity at a single location under one ownership for which separate records are maintained.

Management within the local community

The first area of enquiry, management within the local community, examines the relationship between business and traditional transactions. It has often been commented that business, especially small business, is extremely difficult to conduct effectively in a social environment that supports a strong traditional commitment to reciprocation and sharing, and lineage or hierarchy or other cultural authority. Capital employment or investment, profit-taking and wealth accumulation can be especially difficult in a society where capital is considered to be scarce, or at least is not readily apparent, and tradition demands that the surplus be shared. This social prerogative can be especially difficult for an apparently well-stocked store in a rural or outer island setting. Petersen (1986:89) in referring to the experience of local retail stores in Pohnpei comments that '[w]hen a wide range of goods are stocked, such as towels, plastic pails, detergents, bolts of cloth and tinned foods, the proprietors grow into the habit of consuming the stock themselves'. According to Carroll (1988:115) '[p]otential for conflict lies at the crossroads of traditional authority, land tenure, economic and sociocultural structures of Marshallese society and the profit requirements of business success'.

Owners of bigger businesses in larger urban centres such as Guam, and businesses in certain industries that cater to foreigners such as hospitality, can possibly divorce their business transactions from some traditional social obligations. Physical isolation, or at least some distance, from the home village and peer support from modern business may help certain enterprises to separate business from social transactions. It is doubtful however, if any business can truly divorce all these obligations. It is also difficult to envisage how a small business owner in a smaller community, whether urban or rural, could separate business from social transactions and successfully operate. The respondents were therefore asked how they responded to family, village and traditional requests for free and reciprocal goods and services, for cash from the business, and for other favours.

All respondents recognise this business/social interface as an important issue for successful business operations and have adopted strong implicit, if not explicit, policies. The respondents commented on the businesses' contribution to the community in terms of employment, funding for church or community events and service provision generally. In addition, businesses commonly provide donations in cash or in kind, either directly to leaders of the community and/or to community festivities. The nature of the donation and the recipients of donations vary in each case according to the nature of the business, prevailing community activities and strength of traditional leadership. Such 'philanthropy' may be little different from that of businesses in an earlier social environment where the governments of the day played only a small role in direct social welfare.

These donations are commonly regarded by the respondents as small in that they do not adversely affect business cash flow and have little effect on profit. This contradicts Petersen's (1986) conclusions that community contributions are made to the detriment of commercial interests. Micronesian small businesses therefore support the community by recirculating a small proportion of profit in addition to providing employment, supplying goods and services, and occasionally stimulating a demand for further commerce. Not all business/community relations are, however, considered to be warm and of mutual interest. One respondent claimed to ignore the envy, which is a very genuine issue for business in any society. As Belshaw (1964) and others discovered, the business owner's rationale may not coincide with that of the greater community.

Current business taxes in both the Federated States of Micronesia and the Republic of the Marshall Islands are quite low, with a gross revenue tax levied at US$80 per year for gross revenues under US$10,000 and 3 per cent for all gross revenues above US$10,000 per annum. Small businesses should therefore be able to afford such community donations, although they must be carefully contained if business operations are not to suffer. The need for a strict policy on donations is confirmed by Carroll's finding (1988:117) that reciprocity crippled many businesses by creating cash flow problems due to over-extension of credit, particularly to family members.

How do small businesses manage these donations? One respondent receives such requests only if they are made in writing. Others give only to community and village events. Other businesses donate to particular traditional leaders. Although the practice varies, one principle appears to be fairly consistent and that is that donations are kept small so that they are easily sustained by current cash flow.

Business owners also commonly stated that they tightened management policies, in particular loan and credit policies, in times of losses or poor business which indicates that commercial objectives can take precedence over those of the community.

Petersen (1986) provided insight into the political, cultural and economic reality of the wholesale and retail trade in Pohnpei. Petersen (1986:83) argues that 'Pohnpei trade stores do not play a genuinely commercial role in the Pohnpei economy; the profit and loss, credit and debt activities of these stores can be better understood as reinforcing social, economic, political, and cultural aspects of the native Pohnpei redistributive economy'. Store ownership enhances the opportunity for the store owner to engage in traditional reciprocal activity, developing an even greater network of reciprocation that can, if required, contribute to political aspirations. 'In extending credit to their customers, storekeepers lose money while gaining prestige in a fashion that mirrors traditional Pohnpei political economy' (1986:90). Petersen comments that store failure is an integral part of Pohnpei's traditional system of reciprocation. He records the guiding principle for ambitious people in Pohnpei as *luhs laud*, literally to lose big. 'Social status on Pohnpei comes through prestige and prestige depends upon loss' (Petersen 1986:84).

If Petersen's findings on the experiences of retail stores in Pohnpei can be extended to other business in Micronesia then it can be concluded that Micronesia entrepreneurs tend to use commerce as a means to other, political, ends. Entrepreneurs contribute to society in proportion to their political aspirations and within respective social and cultural expectations. To what extent however, does reciprocation prevail over commerce or vice versa, and to what extent are Petersen's observations relevant today? The interviewed business owners all adopted strict policies with respect to managing reciprocation. Well-managed reciprocation can support both business and community interests, and reciprocation can be viewed as an investment in maintaining, if not enhancing, the business owner's cultural and/or political status. An interviewee related to leading local politicians avoided requesting assistance from them. The rationale for this 'policy' may have been to avoid any negative reaction from the community; it could also have been due to anticipated subsequent reciprocation—potentially exacting on the business. Petersen also suggested that cultural, reciprocal demands prevailed over commercial interests in time. Some of the interviewed business owners however, have been in business for almost 20 years. If variation in turnover and employment is indicative of the variability of commercial performance, then at least some businesses have succeeded in developing a business culture where commerce may prevail over reciprocation.

Personnel management

As modern business management theory attests, success in business depends on the commitment and productivity of both owners and employees. This relationship is not solely a matter of remuneration but is a function of several pecuniary and non-pecuniary compensations. In Micronesia these compensations have to suit a changing island environment where the regimen of a 40-hour working week is a relatively new phenomenon, where corporate hierarchy may not accord with that of tradition, and where the monthly wage barely finances the first born's first birthday feast.[2] Business owners were therefore asked how they managed their employees. Questions covered issues including how employers paid their employees, resolved personnel disputes, ensured attendance and equal efforts, and treated requests for pay advances and loans. Information was also sought on the preferences employers had with regard to the kind of worker they preferred to recruit.

Whereas the method of remuneration in terms of frequency, form (cash or check), basis of payment (piece work, hourly) did not seem to present much of an issue for small business management, requests for advances and/or personal loans did cause some concern. This is another area of management where business owners have adopted strict policies. Certain businesses refuse requests for advances, others refuse loans. All businesses are obviously very careful when advancing personnel payment and have sensibly adopted strict policies to restrict such commitments. Excessive outflows of this type could have a serious detrimental effect on cash flow, the lifeblood of any business. All business owners who extend loans and advances maintain a careful record of borrowings and repayments. Repayments are tied to future wages and usually must be completed over a short period of time. Again, as with traditional donations and customer credit, personnel loans and advances are confined to a level commensurate with the business cash flow. This policy on personnel loans and advances is even more sensible given the World Bank's comment (1993:17) with respect to the Republic of the Marshall Islands that '[t]he Courts appear reluctant to enforce sanctions against defaulters'.

Based on the survey responses, control over employees is exercised by standard means such as careful hire, a structured organisation and supervision, as well as the use of assigned tasks, time clocks, time sheets and regular checks. Most respondents also rely on talking to or counselling employees. Apart from a preference for employing 'hard workers' and 'according to the type of work', some respondents commented that they preferred not to hire members of their family. This preference is apparently due in part to some family members' lack of commitment to working for the business, expecting to receive rather than to contribute. This preference is important to note given the usual assumption that

2 In agreeing with Petersen (private communication) that there may be nothing unusual about such problems and that Micronesians are dealing with them in their own ways, it is these particular ways that are of interest in better defining the business culture that succeeds.

most indigenous businesses are indeed small 'family' businesses and that the family offers a 'reliable' source of cheap labour.[3] Could it be that, in the case of the more successful small businesses, members of the family are employed only when they demonstrate a commitment to working for the business and that harder working non-family labour is preferred, at least in the initial stages of business development?

The Federated States of Micronesia and the Republic of the Marshall Islands wages and salaries are relatively high by Pacific standards. These wage levels are attractive to some foreign nationals.[4]

Micronesian businesses have employed foreigners either in management positions or as skilled workers. The employment of foreigners is obviously too expensive an option for most small businesses but it does offer a source of skilled labour, alternative ideas and alternative approaches. Perhaps equally importantly, foreign labour may offer a source of cultural mediation or adaptation that can facilitate personnel management in a small-scale personal and commercial environment. Foreigners may be politely accepted as excluded from, and immune to, if not ignorant of, local customs, and their mediation in some personnel matters may be more acceptable to society as a whole. Carroll (1988:32) commented that '[s]ome entrepreneurs suggested that businesses hire non-Marshallese to act as buffers between them and their relatives'.

Other resource management

Land. In the case of the Republic of the Marshall Islands, the surveyed businesses secured land holdings through traditional lease. The land was then considered as belonging to the owner of the business though was not capitalised as an asset of the business. Such Republic of the Marshall Islands businesses sometimes made 'lease' payments to the previous owner or the *Iroij* (or traditional or paramount

3 See, for instance, Caroll's (1988:126) comments with respect to indigenous business in the Republic of the Marshall Islands, where he comments that Marshall Islands' enterprises typically rely on family members as workers. See also the comments of the Federated States of Micronesia's second national development plan (FSM 1993:179).

4 According to the Kosrae State Statistical Bulletin of 1992, produced by the Bureau of Planning and Statistics, Office of Budget Planning, 19 of the 31 expatriates employed and resident in Kosrae State in 1992 were from the Philippines. Seven were from the United States.

chief). In the case of the Federated States of Micronesia the respondents either used their own land or in one case purchased land using cash. Another respondent leased land from the government.

Carroll (1988:133) detailed the complexities of land tenure and informal land transfer in the Republic of the Marshall Islands. He states that '[a]dherence to the land tenure system often entitled the entrepreneur to only limited control over the land and subject him to the changing demands of the landowner'. Although the survey did not detail the intricacies of the formal land transfers, in all cases business owners were able to obtain land to start a business and to continue using the same land with little or no detriment to business. The survey findings therefore question the problems of land tenure as assessed by Carroll. The survey may also qualify the more general assumption, both in Micronesia and in the rest of the region, that complex land tenure systems constrain land availability, as far as domestic business is concerned.

Capital. Unfortunately however, in the absence of clear land title, neither 'owners' nor 'users' can feel fully confident that their rights to ownership and use are secure and unqualified. 'Untitled property' is not accepted by commercial banks as collateral on financial support for business investment.[5] Although the minimisation of initial loan capital may well be a sensible policy for most new businesses, the prevailing traditional land tenure systems greatly curtail creditworthiness and virtually padlock the expansion of the countries' domestic private sectors.[6] Not surprisingly, survey respondents commonly used their own funds initially, although one obtained a development bank loan and another a commercial bank loan. This finding confirms the comments of Carroll (1988:128)

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5 In the Federated States of Micronesia land transfer is prohibited except by special statute and foreign commercial banks are not allowed by law to hold Federated States of Micronesia real estate as collateral but numerous unofficial exchanges have been made because land access and transfer are essential to most businesses. According to Carroll (1988) land transfer is also subject to some dispute. The land 'rent' agreed at transfer may not fully reflect current and future land values. In the Republic of the Marshall Islands the interests of landowners and the highest ranking chief (the *irooj laplap*), the land manager (the *alap*) and land users (*ri-jerbal*) all have to be met before any transfer of use can be approved.

6 Creditworthiness is currently and commonly defined by commercial banks, that is, in terms of loans and overdrafts extended to bank customers who can back the credit with collateral security—usually stocks and shares, property or insurance policies.

that '[o]nly a few people in each group reported loans from commercial banks as the source of their start-up capital; even fewer cited the development bank'. Small Micronesian businesses are currently dependent on the community, through traditional tenure and informal arrangements for access to land. That land can be accessed for business purposes is notable, but whether current traditional tenure and informal transactions readily facilitate domestic investment is extremely doubtful. In addition, self-financing for business start up and expansion would appear to be the rule in the Federated States of Micronesia and the Republic of the Marshall Islands. Domestic private savings are extremely limited in Micronesia and while such levels of savings may be sufficient to invest in a small retail store they cannot finance the majority of larger commercial investments.

Operating finances. In societies where trade unionism is weak, collective wage bargaining unknown, and where minimum wage legislation is not enforced outside the public sector it is interesting to note that the respondents consistently stated that they pay the going market wages for their workers. The going market wage is therefore interpreted as the wage that satisfies both indigenous business profitability and the expectations of a growing supply of labour.

Relatively high public sector wages may pressure private businesses to meet the going wage rate. In the Republic of the Marshall Islands however, as private sector employment grew in the 1980s, GDP fell. The World Bank therefore commented that overall labour productivity had declined (1993:3). It is also important to note that average levels of remunerations probably fell. According to the Bank, '[p]reliminary estimates suggest the unemployment rate in 1991 was about 16 per cent'. And '[u]nemployment rates in the two urban centers of Majuro and Ebeye are...much higher as these areas constitute about 85 per cent of the total unemployment population'. The World Bank goes on to state that an estimated 20 per cent of employees in the private sector of the Republic of the Marshall Islands were receiving less than the minimum wage (1993:3–4). As Carroll (1988:125) discovered, 'of the 63 indigenous enterprises that reported, 56 per cent indicated that family workers were not paid'. Micronesian commerce cannot afford to meet the expectations of government-led wage levels and some accommodation between business and the greater community that allows flexibility in the setting of wage levels is probably evident.

Respondents also generally stated that they abide by the standard business practice of making creditor payments within 30 days. Ensuring that debtor repayments lead creditor payments not only reinforces cash flow but can mean the difference between success and failure to a small business. In the service-sector-dominated private sectors of the Federated States of Micronesia and the Republic of the Marshall Islands however, many debtors will be either foreign suppliers or major domestic wholesalers who are likely to adhere to much firmer credit policy than is the norm of domestic credit where reciprocation and sharing is common. Petersen's research (1986) suggests that 'standard commercial practice' would not support the primarily political objective of extending credit, at least as far as trade stores are concerned. This places the typical Micronesian business in a difficult to manage, very tight credit situation.

It should therefore not be surprising that all interviewed businesses have adopted strict policies governing the extension of customer credit. As with employee credit, these policies are extremely important to the success or failure of the business. Such credit policies, however, differ from Petersen's findings that credit is extended for non-commercial social and political objectives. Petersen (1986) reported on the complex networks and cultural significance of credit characteristic of the retail and wholesale trade of Pohnpei. He further commented on the extreme vulnerability of cash flow and profit to the over-extension of credit, with most stores going out of business because of such practices. According to Petersen (1986:91), even 'large Pohnpei stores appear to have continual liquidity problems. They have on their shelves stocks of merchandise that do not move. They have large outstanding debts. There is evidence that several of them may actually lose money on their wholesale operations. They are, in the same fashion as the smaller stores, earning social credit in the form of uncollected debts'. Petersen (1986:91) also commented that '[i]n the manner of a Melanesian big man, an aspiring Pohnpei constructs a network of relationships and unstated obligations that can be called upon for support at critical junctures such as title-repayment feasts and funerals'.

Petersen's research was undertaken in the 1980s. Have today's successful Micronesian small business owners established improved means of reconciling the conflicting demands of credit for commerce as opposed to credit for culture and politics? Are today's Micronesian business owners and urban communities more commercially biased? Many of today's leading Micronesian business enterprises are owned and operated by respected leaders of the community. These same business owners are or were elected politicians. The same businesses have operated for well over a decade and it is therefore apparent that commerce is not entirely subjugated to cultural and political ambitions.

Pricing, marketing and accounting

The small businesses interviewed offered price discounts for larger volumes where this practice was appropriate to the particular industry. Businesses also sometimes demanded a higher price if purchases were made on credit. These practices make for eminently sensible business conduct. But small businesses in the competitive primary production and service industries are generally price-takers rather than price fixers, and have to be managed accordingly.

With costs, other than wages, and prices relatively fixed and with little room to manœuvre with regard to managing credit, Micronesian business might be expected to target particular markets for their products and services in order to sustain and develop business. Trade stores serve a particular community, construction firms rely on successive government contracts, and hotels and guest houses largely rely on foreign custom. Selective marketing could therefore be an important policy in reinforcing commercial profit if not community gain. Respondents however, expressed little preference with regard to clientele other than for the 'bigger' customer.

Some businesses, usually the older and more diverse enterprises, maintain a full set of financial records while others keep only some. Complex record keeping does not necessarily make a small business successful, and minimal record keeping during the first few years of business is to be expected. Why go to the expense of computerising business records or studying accounting if the business is not going to make it? Sophisticated record keeping may aid, but it does not ensure, effective pricing, marketing and client relations. During the first years of business one of the keys to success is sustaining a positive cash flow. One of the few, if not the only, initial record requirements therefore is the regular cash statement.

A re-examination of the theory

Micronesian businesses are distanced from sources of supply, new technology and information, as well as from major markets and new market information. Most Micronesian businesses have little control over the costs of imported commodities, but may influence the cost of land, local labour and raw materials. Imported supplies are subject to delay and other distortions. Most indigenous businesses are price-takers. Indigenous business is directed, if not restrained, by relatively immobile land (and other constraints on raising capital) under complex, traditional land tenure. The Micronesian business is often dependent on the community for its market, supply of land, labour and other support. The Micronesian business is therefore confronted by a very difficult resource, cost, price and credit regime.

Micronesian cultures are strong and the community may resist change. Large volumes of public sector support through aid have postponed or greatly lessened the need for social change. At the micro-level, commerce must accommodate both small business and traditional transactions. In particular, a delicate balance between profit maximisation or accumulation and community sharing must be resolved. The greater community has a profound influence on the 'business culture' of Micronesia and this further complicates the uncertain environment for business decision-making.

Business management policies must incorporate

- the nature and extent of donations to the community
- personal loans and advances to employees
- credit to customers
- relationships between family members and business employment over time
- the social role of foreigners in small business.

Cultural and political associations may influence business demand and the supply of technical skills and information. Commercial operations may also be subordinant to cultural and political endeavour for some business owners. The particular history, society, culture and politics of Micronesia frames the commercial environment of Micronesian business.

If the view of Cyert and Pottinger (1988:201) that 'the objective of microtheory is to develop a positive theory of market behavior' is endorsed then it must also be accepted that traditional social transactions are a component of market behaviour. In seeking to explain Micronesian market behaviour, traditional transactions may be ignored leading to incomplete formulation or they may be incorporated as a qualification of the stricter and more quantifiable economic market factors. Alternatively a more descriptive theory could be employed.

In formulating an explanation of Micronesian business management, traditional theory could have greater application where the business is viewed as an entity that serves the greater community rather than as an entity that strictly serves the objectives of the individual business owner. A portion of the profits derived from individual business activity may be received by the greater community in the form of donations, low cost credit or price discounts. The assumption of profit maximisation may therefore more readily apply if Micronesian businesses are viewed as 'community' businesses. The community that supported the business by recognising the business' use of land, providing labour and favouring the business with its custom may also expect a share of the profits of the business.

Both community reciprocation and commercial investment involve an initial outlay or sacrifice for expected but uncertain subsequent returns. Reciprocation and commercial investment may also lead to either equal or unequal distribution of net gain. An important difference however is who gains and who loses. The sole proprietor of a business may not be the sole custodian of tradition and in a Micronesian cultural setting the unequal profits of commerce may be subject to the more egalitarian expectations of the community. Herein lies what could be a further continuing source of misunderstanding between the greater community and the emergent individual entrepreneur.

It should be noted that community influence over business is not unique to the Pacific region. In each society governments, consumers and workers, as well as the greater community and business owners themselves, have a conception of 'fairness' as well as other expectations with respect to both social and financial transactions. These conceptions may be unique to each society and they may well change over time, but they will also help pattern individual business. Business must accommodate these expectations to succeed. The shared values and practices of the greater community will contribute to the 'culture' of business.

Community support may also create a more certain business environment where competition is reduced through community preferential demand, and locally derived costs and demand conditions are largely set. Essential assumptions for profit maximisation however, are complete certainty, perfect competition and full information. Perfect competition and full information are curtailed by the limited supply of land, finance and skilled labour. Complete certainty and full information are also impaired by the dependence on externally sourced inputs.

The conclusion that Micronesian businesses respond to the objectives of other vested interests including customers, employees, shareholders and even the greater community is not a new idea, indeed it is well supported by modern management theory. Descriptive or behavioural theories of the firm have been developed to help explain management and business decision-making in industrialised economies. While Micronesia's businesses may not be as large nor as organisationally complex as their counterparts in Asia, Europe or America, decision-making is just as difficult and uncertain. Behavioural theory questions the relevance of the objective of profit maximisation. In developing an alternative theory of management some behavioural theorists have tried to incorporate the objectives of shareholders, customers and employees. This same line of reasoning may be extended to include the objectives of the greater community in the Pacific.

Indigenous Micronesian businesses appear to succeed in commercial terms by adopting strong implicit, if not explicit, policies which suppress community reciprocation in the form of customary payment, personnel loans and customer credit. Such policies allow indigenous businesses to protect essential cash flows. These same businesses commonly, and of necessity, are established with their owner's land and funds and owners must also develop their own business skills. Entrepreneurs are not averse to employing non-family labour and imported skills where applicable. Reciprocal community support of the indigenous business may in turn promote the business owner's cultural and political as well as commercial objectives.

The generally strong management policies of Micronesian indigenous business owners may be equated to the inflexible core adaptive values or strong cultures as described by Kotter and Heskett (1992). The practice of easing or tightening loan and credit policy in response to changing levels of business and the policy of employing foreigners as mediators in business may also indicate the flexibility required for a more adaptive business culture. In a similar vein the use of the business owner's land and funds, self-development of business skills and the overall accommodation of profit accumulation and reciprocation may be interpreted as an appropriate response to the particular Micronesian commercial environment. The culture of Micronesia's successful businesses may therefore be just as strong, adaptive and appropriate as that of the more successful corporations in the United States. In both Micronesia and the United States the respective business cultures need to fit their environment and adapt to a changing environment. In the case of Micronesia however this environment extends to the influence of the greater community which may be more pervasive today in Kolonia than it is in New York.

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