

# Business Size Composition and Management Training Needs of Countries in the Eastern Caribbean

By JOHN C. EDMUNDS and EDWARD L. FELTON, JR.\*

**ABSTRACT.** Size composition of *Eastern Caribbean* businesses was found to be bimodal. Very few businesses employed 10 to 50 people, most had either a larger or a smaller number. This unexpected result emerged from a survey to determine *management training* needs in the region. The survey included 134 face-to-face interviews with business people. Respondents gave several possible explanations for this unusual pattern; among those mentioned were historical factors, barriers to entry, and to access to credit; *racial stereotypes*; and status perceptions. Respondents described the *micro-business* sector and types of management training and of *education* that would stimulate the growth of micro-businesses in contrast to training that would improve performance at larger companies. Respondents felt that *restructuring* the business sector of each economy, in terms of *product mix* as well as size composition, would help stimulate *economic growth* in the region.

Economic growth in countries in the Eastern Caribbean has lagged behind the world average for more than fifteen years.<sup>1</sup> The Seventies, with oil shocks outstripping revenue gains in commodity exports, was a depressed period for the area.<sup>2</sup> The Eighties have so far been no better.<sup>3</sup> Although oil prices have declined, the region's commodity export prices have declined as fast or faster, and other foreign exchange sources have not emerged to bridge the gap.<sup>4</sup>

This chronic foreign exchange deficiency has left the region unable to sustain the growth rate needed to provide employment opportunities and better living standards. This loss of dynamism has led to outmigration.<sup>5</sup>

## I

### Increased Foreign Assistance to Eastern Caribbean Countries

BILATERAL AND MULTILATERAL DEVELOPMENT AGENCIES have increased their funding to the region throughout the present decade. Priorities have been for physical and social infrastructure projects, with increasing emphasis on agriculture, tour-

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ism and manufacturing. Central themes have been diversification of the economy and promotion of private sector activity.<sup>6</sup>

This development assistance has benefited the private sector in general, with special initiatives to help micro-businesses. Development assistance has not been directed explicitly toward moderate size businesses, employing 10 to 50 people. This oversight is probably accidental, perhaps due to the paucity of moderate size businesses and their low profile.

## II

### **Size Composition of Businesses in the Eastern Caribbean**

ACCORDING TO EVIDENCE from interviews, the size composition of firms in the Eastern Caribbean is bimodal. There are large businesses and micro-businesses, but very few in the size range of 10 to 50 employees.

This assertion emerged repeatedly from interviews conducted by the authors with financing from the United States Agency for International Development (USAID). The authors directed an investigation involving face-to-face interviews with 134 business people in the region. Interviewees included 81 owners or managing directors of large businesses; 21 directors of chambers of commerce, industry associations, trade groups, or labor unions; 15 government officials; 17 professors of management.

Interviews averaged ninety minutes in length and focused on barriers to private sector growth, with a view toward identifying management training needs.

As the respondents outlined business conditions and prospects, it was clear they were presuming two strata, a stratum of large, established businesses, and a stratum of very small, unsophisticated businesses. They never referred to a middle group; and the evolution of the business sector, as they portrayed it, did not produce a uniform size distribution of businesses. According to them, plantations, commerce, tourism and manufacturing are controlled by the traditional elite and by multinational companies. Micro-business are controlled by emerging entrepreneurs.

Respondents indicated that micro-businesses are concentrated in four broad activity categories: agriculture, internal commerce, light manufacturing, and services. Micro-businesses can be classified as informal and formal. Interviewees estimated that 80% of the small businesses are informal. They estimated that 40% of these are run by women. These include neighborhood variety stores, fruit and vegetable sellers, TV repair shops, taxicab companies, barber shops, dressmaking establishments, and similar operations. Interviewees estimated that the typical micro-business owner nets less than \$2,500 per year from the business.

In the informal sector, cost of entry is low,<sup>7</sup> inventory levels are low, and profit margins are low. Typically these businesses employ one to three people.

Formal micro-businesses are owned by people with more technical knowledge and capital. An estimated 15% of the owners are women. Formal micro-businesses include chains of hairdressing salons, small transportation companies, and small processing, packaging and manufacturing enterprises. The latter often are consolidations of individual craftspeople under one roof rather than production-line manufacturing facilities. For instance, the owner might bring together ten cabinetmakers who previously had been working separately, and establish what will be called a furniture plant in the neighborhood.

Owners of formal micro-businesses borrow funds from financial institutions and generally have high debt/equity ratios. These businesses typically employ from five to thirty people. Sales may reach \$500,000 per year; and profits are estimated at 5% of sales, though reported profit margins may be lower.

The owners of formal micro-businesses, in the opinion of interviewees, are alert to opportunities for expansion, interested in expanding, and are in a relatively good position to do so. The owners of informal micro-businesses are also alert and interested, but not very well positioned to be able to expand.

## III

### **Medium-Sized Businesses and the Eastern Caribbean**

INTERVIEWEES REPEATEDLY referred to large businesses, operated by the elite and foreigners, and micro-businesses, operated by emerging entrepreneurs. Most mentioned the size distribution in passing, as if were an obvious feature of the landscape, but not significant or noteworthy. Each had a ready explanation why very few micro-businesses have been able to grow beyond their current size range, despite the efforts and abilities of their owners.

When asked, interviewees gave different reasons why there are so few businesses in the moderate size range. The first is historical: the economies of the islands were based on plantations and monoculture, with slaves and an elite group of Europeans. As the range of goods produced broadened, only the elite had management knowledge or access to financial resources, so new businesses were mostly started by members of the elite. When slavery ended, greater numbers of blacks were able to start businesses, but lack of management knowledge and poor access to financial resources inhibited their successful entry and prospects for expansion. According to responders, barriers to entry and growth explain the bimodal size distribution of businesses.

The second reason cited by many interviewees is tension between the white elite and emerging black entrepreneurs. Respondents stated that as the economic

structure changes, the size mix of businesses changes. As urbanization proceeds, goods that previously were made in each extended household are now made by micro-businesses and sold in the money economy. The growing sophistication of local economies threatens the grip of the traditional elite. In addition, emerging entrepreneurs have the alternative of seeking to improve their position through the political process.

The third reason cited in interviews is the low status of business and commerce in the Eastern Caribbean. People finishing secondary school do not usually aspire to careers in business. Instead they choose other occupations.

## IV

**Economic Stagnation and Possible Revitalization**

THE COUNTRIES of the region are small and scattered. The Eastern Caribbean countries include Trinidad and Tobago, Barbados, Antigua and Barbuda, Dominica, Grenada, Guyana, Montserrat, St. Kitts-Nevis, St. Lucia, and St. Vincent. Individually these countries have populations ranging from 50,000 to 1.5 million. Collectively their total population is less than 3 million.<sup>8</sup>

Ocean transport among these countries is limited and irregular. Transport cost and small market size complicate efforts to turn this group of countries into a unified economy.<sup>9</sup>

Foreign exchange forecasts show that even a major recovery of export prices will not generate sufficient economic activity to employ the existing labor force.<sup>10</sup> During the 1973-74 commodities boom, unemployment fell to an average of 12%.<sup>11</sup> In 1988 the Organization of Eastern Caribbean States had unemployment averaging over 20%, and in Grenada the rate was over 30%.<sup>12</sup> Labor force growth rates remain high. In Barbados, for example, the labor force is growing at an annual rate of 2.7%; and 57% of the population is under 25 years of age.<sup>13</sup> A commodity export boom of the same magnitude as the 1973-74 boom would not lower unemployment to the 12% level, because the number of unemployed and underemployed is larger; and because the mix of jobs created would be more skill-intensive.<sup>14</sup>

If these countries are to grow as fast as the world average, a new source of jobs will have to emerge. Primary product exports have a poor outlook because there is excess installed capacity and sluggish growth of consumption.<sup>15</sup> Tourism earnings can grow faster because they depend on discretionary income in the rich countries. This does not imply, however, that tourism can generate enough economic activity to sustain acceptable growth rates. Other export businesses will also be needed.<sup>16</sup> Offshore banking, a new export business, has shown an exciting growth rate, but not all Eastern Caribbean countries have been able to

participate. Offshore banking grew at uneven rates in the first half of the Eighties, and the jobs created have been for people with twelve years of education or more.<sup>17</sup>

New jobs can come from niche businesses: businesses aimed at small, differentiated markets or markets where the exporter enjoys some advantage of location, quality or service. Some of these niche businesses already exist: winter fruit and vegetable exporting to Miami; remote data entry; telephone order taking; ship chandlery; export of ethnic foods; retirement communities; care of the disabled and chronically ill; time-sensitive offshore assembly; and specialized consulting services.

## V

**Prospects for Promoting Business Growth**

THE CITED FACTORS need not continue to impede the evolution of micro-businesses into moderate-sized businesses. Respondents identified four groups of people who can perform entrepreneurial roles, with prospects for creating organizations that will grow to moderate size. First, there are owner-managers of formal micro-businesses; second, there are people who left the region, worked elsewhere, acquired skills and financial resources, and return to the region; third, there are professionals such as teachers and government administrators, who would start a business to augment their incomes, or who would change careers completely; and fourth, there are immigrants, who arrive from places where economic opportunities are worse, and who seek business opportunities.

Government agencies, development institutions, and private sector leaders have tried to promote business growth in the Eastern Caribbean. Most have focused on finding export businesses to replace those that are declining, or have tried to assist individual owner-managers whose businesses lack some key requirement for success. Few efforts have addressed the size composition question, yet the interview data indicate that size composition is a key symptom of the region's business malaise.

## VI

**Management Training Needed**

RESPONDENTS STATED that if the region's business sectors are to accelerate, and lead a wave of economic growth in the region, several actions need to be undertaken immediately. First, an effort must be made to change the image that business currently has as a career. The target group for this campaign of communication would be students and people who are already in business. A business

career would be shown as an exciting, challenging, constructive and honorable endeavor. The purpose of this communication campaign would be to enlarge the pool of people likely to choose business as a career and to establish businesses, thereby creating employment opportunities and economic growth.

Second, public education, and particularly education in management, engineering, and other business-related subjects, would need to be expanded. Adult education should also be emphasized, so that people who are already in business can benefit.

Third, it is important to provide middle-level management training, aimed at owner-managers and key personnel of formal micro-businesses and recent school graduates. Topics would include marketing, production, and finance, at a level of sophistication appropriate to firms in the moderate size range. The purpose of this training would be twofold. The first purpose would be to transmit technical information. The second purpose would be to strengthen the adaptability of those receiving the training.

Fourth, concomitant with training, respondents emphasized that capital would need to be made available to moderate sized businesses, and to the larger micro-businesses that have expansion potential. As a competitive strategy, commercial banks might assign lending officers to seek medium-sized clients. Respondents who commented on bank lending policy stated that if some of the banks in the Eastern Caribbean try to cater to the needs of this target group, they may succeed beyond their expectations.

These actions will not magically transform the size composition of businesses in the Eastern Caribbean. Nevertheless, in the opinion of persons interviewed, they will help mobilize potentially dynamic elements in the business sector, and improve the sector's prospects for contributing to future economic growth.

#### Notes

1. The World Bank, *World Development Report 1985*, (New York: Oxford Univ. Press, 1985), pp. 174-75; International Monetary Fund, *International Financial Statistics*, May 1987, pp. 40-41.
2. *Ibid*.
3. *Ibid*.
4. International Monetary Fund, *op. cit.*, pp. 48-49.
5. Norma Abdallah, *The Availability and Utilization of Skills in Guyana*, Institute of Social and Economic Research, University of the West Indies, St. Augustine, Trinidad, 1981.
6. U.S. Agency for International Development, Regional Development Office/Caribbean, *Annual Action Plan, Budget Submission and Regional Development Strategy Statement*, Revisions, 1985.
7. On the availability of stores, workrooms, and offices only a few observations can be reported. None of the respondents mentioned shortages of space, or restrictions with regard to neighborhood zoning ordinances or de facto zoning. Street front stores, industrial space and offices were for

rent in most of the countries; no information was available on the relative cost. However, people were seen who had set up shop in open lots, with some rough-and-ready lean-to structures put up as necessary. One business involved three people who set up satellite TV antennas. Their inventory of half-assembled antennas was next to the garage alongside their modest stucco house. They said they could set up antennas from the few kits available in two weeks, or, if the buyer paid a premium, one week. They indicated sales yielded about \$3,000 per week, with about \$1,200 as the wholesale cost of a kit. They had no other out-of-pocket costs.

8. *Ibid*.
9. Winston H. Griffith, "Can CARICOM Countries Replicate the Singapore Experience?" *Journal of Development Studies*, Vol. 24, No. 1 (Oct. 1987) pp. 60-82.
10. The World Bank, *World Development Report*, *op. cit.*, p. 138.
11. Gary and Rosemary Barana-Sheets, *The Unemployed of the Eastern Caribbean: Attitudes and Aspirations*, United States Agency for International Development, December, 1980.
12. U.S. Agency for International Development, Regional Development Office/Caribbean, *Annual Action Plan, Budget Submission and Regional Development Strategy Statement*, 1986.
13. Central Statistical Office, Republic of Trinidad and Tobago, Port of Spain, Trinidad, *Special Labor Force Report*, SLF 22, 1985, p. 9.
14. Computed from *Work Permits Report*, Central Statistical Office, Republic of Trinidad and Tobago, Port of Spain, Trinidad, 1980-85 issues.
15. International Monetary Fund, *International Financial Statistics*, May 1987, pp. 78-79.
16. Interview with Mr. Berkeley Pilgrim, president, Mayflower Management Institute, Nassau, Bahamas, Sept. 9, 1985.
17. Interview with Mr. J. F. Cooper, manager, The Bank of Nova Scotia, Grenada, July 11, 1985.

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## Good Finance, Bad Finance

COURSES IN ETHICS are beginning to appear in M.B.A. curricula. Consequently there may be some hope for more publicly oriented judgment to be brought to bear, than is currently the case, on financial matters. One book in point, which would repay study and stimulate discussion in business ethics courses, is *The Power of Collective Purse Strings: The Effect of Bank Hegemony on Corporations and the State* (Berkeley: University of California Press, 1989, \$30). It is the work of Davita Silfen Glasberg who is Assistant Professor of Sociology at the University of Connecticut at Storrs.

The powers that financial institutions and the state exert over the allocation of capital are examined through several case studies. The author shows how financial institutions play an important role which influences how corporations deal with a variety of crises by considering the Chrysler case, the 1982 Mexican debt crisis, and one concerning W. T. Grant.

Some pressing important questions are entertained. What happens when industrial and commercial corporations face an organized financial community? What occurs when governments at various levels borrow to finance various projects as corporations do? Can a state's autonomy be threatened by this behavior? These vexatious questions are explored helpfully since the author had unique access to primary data.

There should be strong regional interest in the book since it takes up the 1978 bankruptcy of the city of Cleveland. (Let us hope not a harbinger for the nation). We are told by the publisher, "Here the author explores how the financial community was able to compromise the autonomy of local government and greatly influence the electoral process. We see that the power of collective purse strings enabled the banks to define the city's cash flow as a crisis, thereby precipitating Cleveland's default." There are evidently some very broad questions of public well-being brought up by this timely book.

Since the charges and countercharges in the Cleveland case centered so heavily upon the possible sale of the publicly owned MUNY, the Cleveland story might be of particular interest to students of Henry George since it was his disciple, "Mayor Tom Johnson who battled to create a municipal utility" and in the process "accused two city council members of accepting bribes from the old Cleveland Electric Light Company." (p. 141)

The bronze replica of Tom Johnson sitting on a park bench in a tiny park in Cleveland, still firmly gripping a metal copy of *Progress and Poverty*, must have been sorely tempted to animation during the imbroglio.

F. C. G.