MICRONESIAN SEMINAR
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New on Our Website...

Micronesia Over The Years: A Photo Album Of Change

This new feature, a mini-album on the islands, offers us a look backwards at Micronesia as it was yesterday. It is a walk through the past, as seen in images rather than in written text. The albums will be changed periodically and will feature photos from the Micronesian Seminar library collection, and the resources of other institutions-- libraries, museums, and colleges-- in the area.

FEATURED THIS MONTH:
The Changing Church

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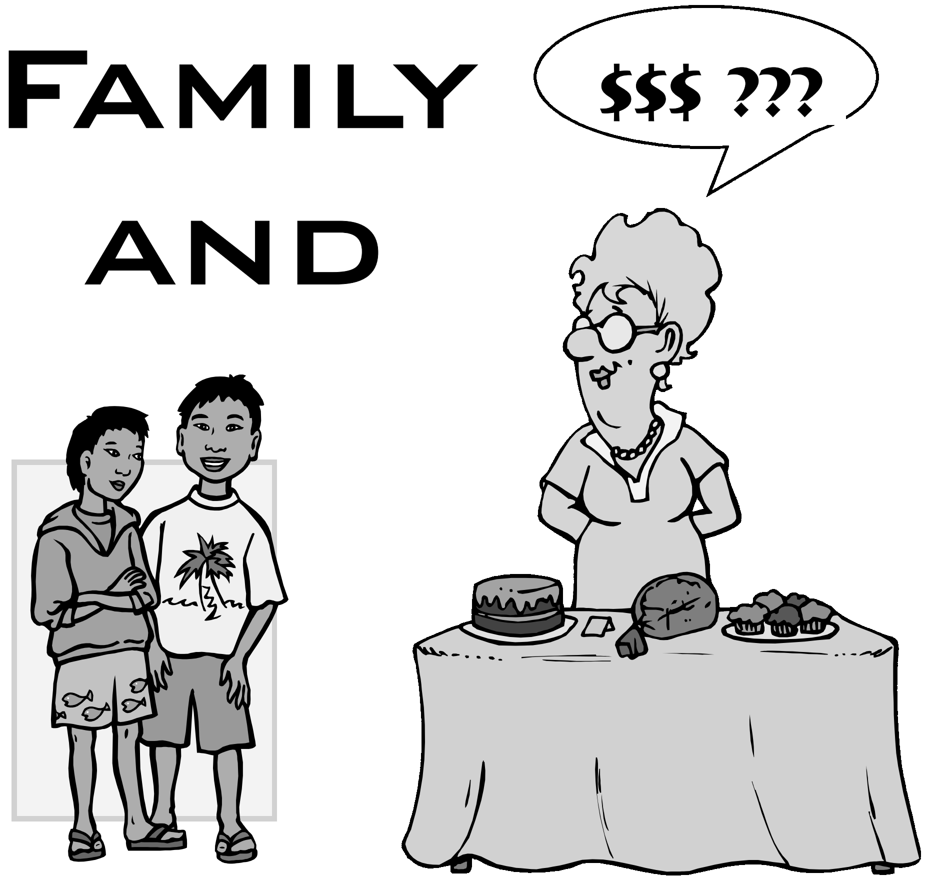
FAMILY AND



BUSINESS IN MICRONESIA

Introduction

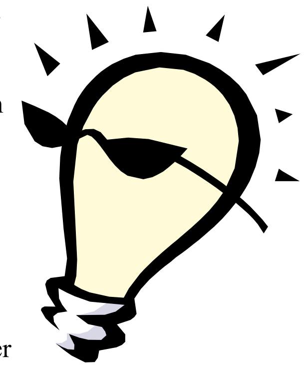
Not long ago a local hotel owner refused to let one of her relatives drink for free at the hotel bar. The relative responded by accusing the owner of having become too American and, by implication, un-Micronesian. Anyone who has spent any time in Micronesia knows what the relative was referring to: what one family member owns should be shared with other family members. To do otherwise, is being stingy, and that is synonymous with being un-Chuukese, un-Yapese, un-Micronesian.

The family pressure to share what one has with other family members creates obvious problems for a business owner in Micronesia. A business owner anywhere must make a clear distinction between business assets and family assets, because business assets and family assets must be managed according to two different sets of values and priorities. But, the distinction between business assets and family assets, which is often blurred in family businesses, is even more unclear in Micronesia where so much of an individual's life is encompassed by the family.

The issue of family obligations versus good business practice comes up over and over again in Micronesia. One hears about it when a business owner complains of having to give family as well as non-family members "credit," otherwise they will shop some place else. Loan officers at the bank hear about it when a borrower cannot make his or her loan payment because money from the business was used to pay for a relative's trip to Hawaii or a family member's medical bills.

The conflict between family obligations and standard business practices also shows up in personnel matters. Being absent from work in order to attend a funeral is a common practice in Micronesia and a common cause for complaint among Micronesian business owners. Obviously, a business cannot operate if most of its employees are attending a funeral, and funerals are a regularly occurring event. At the same time, telling an employee that he or she cannot attend a relative's funeral is also telling the employee to ignore a fundamental family obligation. In a closely knit extended family in Micronesia where there is a well defined network of reciprocal obligations between family members, a Micronesian tends to see the family and his or her standing in the family as critical for survival. Consequently, when a family obligation of any kind (such as looking after a younger brother or sister or helping an uncle repair a boat) conflicts with an employee obligation (such as getting to work on time or even going to work at all), the employee needs a compelling reason to fulfill his work

College of Micronesia, etc.) would continue to locate buyers and the aquaculture development programs (Sea Grant, Center for Tropical Aquaculture, etc.) would continue to provide technical assistance. What would be different is these support agencies would be working with established businesses rather than with business start-ups and would, thereby, have a much greater chance of success. What is more important, this holistic approach follows proven Micronesian model for business development.



Another way business development programs can use existing Micronesian businesses to cultivate new businesses is to use the "family spin-off" model as part of its business development strategy. If they did this, the model for business start-ups would no longer be a stand-alone operation that depends on the finances, energy, knowledge and experience of a neophyte entrepreneur. The model would look more like a diversified family business in which the new business is housed within an existing business until the owner is ready to operate independently. This approach to business development is already being used to some extent by YCA (Yap Cooperative Association), a large diversified retail business in Colonia. The management of YCA offers its department managers the option of buying its department's assets and operating as a separate business within YCA. A video rental store in Yap was started this way. Yap State Hospital used a similar approach to business development in privatizing the hospital's laundry and cafeteria service.

Family and business, then, need not be seen as incompatible with one another. The strengths of each should be utilized in what could be a new and more productive approach to business development in Micronesia

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two in order to succeed. But what they actually do is marry the two to produce a hybrid that combines various features of both value systems. For example, the Micronesian business owners I spoke to respond to demands for credit in a very conservative, business-like fashion. They either do not offer it, or they offer it sparingly. But they are sensitive to the local mores when it comes to funerals. Here, they are more flexible. They give their employees the opportunity to manage their time so they can meet their family obligations.

A more interesting marriage of Western capitalism and traditional culture is the way the family structure in Micronesia supports and becomes the business structure. Just as family ties in Micronesia are essential to ones social well-being, they are just as critical to the success of a business. A Micronesian family gives a business so many advantages in the start-up phase and in the growth phase when the business branches out and diversifies, it is hard to imagine someone competing successfully against such a business who is not part of an equally strong family.

But a successful family business in Micronesia is not just a traditional Micronesian family. It integrates both the local community and the much larger business community that exists inside and outside Micronesia. Often this dual perspective within the business is the product of a marriage between a Micronesian and a non-Micronesian, but it can also be achieved through a partnership or it can reside in the consciousness of a single individual who can appreciate and respond to the demands of both worlds.

The example of successful businesses in Micronesia has significant implications for business development policy. If business development programs follow the example of successful businesses, they will look for ways to capitalize on the business development opportunities that are present within the existing businesses in Micronesia.

One way they can do this is by putting together the partnerships needed to link local resources and products with export markets. An example that has been mentioned is linking existing retail businesses with owners of potential aquaculture sites and then identifying buyers for various aquaculture products such as sponges, coral and giant clams. This would assist retail business owners who are looking for growth opportunities to counterbalance the shrinking sales that will necessarily result from decreases in Compact spending. It would also give site owners who have no business experience an established business structure. The existing business development programs (Pacific Business Center Program,

obligation. In many cases, the standard business incentives, like the promise of a small raise, are not enough to outweigh or override the employee's sense of family obligation.

Given all of the problems that family ties and family obligations create for a local business owner, how does one operate a successful business in Micronesia? Most business development advisors do not have an answer for this question. Even though most of them are aware of the cultural resistance to business development in Micronesia, their business assistance programs and the training materials they use do not address the conflict between traditional family values in Micronesia and capitalist business values. This is because they, the business developers and the materials they use, assume that the capitalist business model works everywhere regardless of the cultural environment. And if it is not working in Micronesia, they argue, it is not the fault of the model but the fault of the people who either are not sufficiently motivated or do not understand business well enough to make it work. As a result, they offer more workshops and encourage their clients to work harder. Because this approach effectively ignores the all-pervasive influence of local culture, it is analogous to teaching people to run through a river as if it were dry land. Instead, business development advisors should be teaching Micronesians how to swim. By not doing so, they fail to provide the assistance that addresses the problems that will ultimately determine whether or not their clients sink and drown.

When I first began working for the Pacific Business Center assisting businesses in Micronesia, I was told by an Asian Development Bank consultant who had been working in the region for several years, "What we need are some successes, successfully run Micronesian owned businesses, that we can point to." The implication was that there were none and that the goal of consultants and business developers should be to help Micronesians create successful, Micronesian-owned businesses to demonstrate that businesses can operate and succeed in Micronesia. At the time, I nodded in agreement and made the same assumptions that he made: first, that there were no Micronesian-owned business successes to point to, and second, that we were the ones to produce them.

Much later it occurred to me that there were several successful

Micronesian-owned businesses in Micronesia and that some of them had been in operation for decades.

So, there were several successes we could point to, even though none of the current business development programs could take credit for them. As this obvious fact began to sink in, I realized that these same businesses must have figured out how to operate profitably in Micronesia despite all of the cultural problems that business development advisors either ignore or consider insurmountable.

With this realization came another: perhaps these existing Micronesian-owned businesses could tell us how a business can succeed in Micronesia. So, I began to ask Micronesian business owners how they started; how they initially financed their business start-up; how they had grown their business over time; and how they handled customer credit and personnel problems such as excessive absenteeism. The following is a summary of what they told me.

Getting Started

So much attention has been given to making start-up loans available to would-be entrepreneurs that loans have come to be viewed as essential in most business start-up strategies. By now, almost everyone is familiar with the process: the potential entrepreneur with the assistance of his business development advisor spends weeks writing a business plan that he/she takes to the local development bank (commercial banks normally require a minimum of three years of operating records before they will consider a loan to a business) to apply for 85% business financing (where 85% of the business's assets is the loan from the bank) at 9% interest over five to fifteen years. If the applicant is successful in obtaining a loan, the problem is how to pay it back. Just to pay the interest on the loan requires that the business earn a profit of at least 7.7% (9% of the 85% of the business that was financed with a development bank loan). This is usually difficult for a small business to do. If a family member has a pressing need, the problem will be, not how to pay off the loan, but how to hang on to the loan so that it all goes into the business.

For the business owners in the FSM that I talked to, however, neither of these problems existed when they started. This is because almost

in and cover. The only personnel policy that is designed specifically to address the problem of absenteeism due to funerals is the company's hiring policy. Managers of the different divisions of the company are instructed not to hire too many people from the same village. This is to prevent a funeral from shutting down an entire operation.

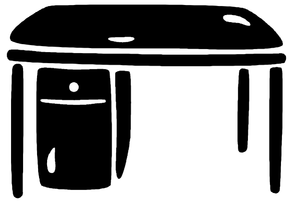
- The manager of another company that has similar policies regarding employee leave said his company, rather than focus on punishment for excessive absence, tries to educate its employees on the importance of coming to work. Managers and supervisors are instructed to point out to employees how being absent hurts the company. This message has particular significance for the employees of this company because they are awarded shares in the company as part of their benefit package.

- The owner of a third company said she spends a lot of her time talking to employees individually about how important they are to the company and how important it is for them to come to work. Although the company employs more than thirty people, most of the employees are from the owner's extended family. As such, she is in a position to approach her employees more informally and personally than she might be able to do if there was no family connection. The downside is that when there is a funeral, almost all of her employees are directly affected. On these occasions, the owner manages funeral attendance by having all of her employees go together and then return to work together thereby limiting the amount of time people are away from their jobs. There are occasions, though, when an individual employee needs to attend a funeral. The owner said she asks the employee to limit time away from work to one day.

The above examples range from the impersonal to the personal and from the formal to the informal. But, all of the above employers, despite the obvious differences in their respective approaches, said their policies for addressing absenteeism were successful. None considered funerals to be a problem for their business.

Conclusion

This project began with the premise that traditional culture and Western capitalism exist in opposition to each other in Micronesia. And that business owners in Micronesia must somehow balance the particularly troubled by this. He accepted these losses as a cost of doing business in Micronesia.



In contrast with how the problem of credit in Micronesia is typically described (as something that Micronesian customers expect almost as a right and business owners feel some pressure to provide), the business owners I spoke to viewed credit as a privilege that they extend only sparingly. For them, credit is something to be tracked and collected. Instead of accommodating local expectations by extending credit, the business owners I spoke to have developed very conservative credit arrangements out of a fear that their customers, for cultural reasons, may not take their debts seriously enough to pay them back. Despite their conservatism and what from a local standpoint would be "stinginess," none of these companies have been forced out of business due to a lack of customers.

Absenteeism

When I asked Micronesian employers how they dealt with absenteeism, most of the discussion focused on funerals. All recognized that funeral attendance is a part of life in the Micronesia, but they described a variety of ways to address it.

- One manager I spoke to has a written personnel manual. In it there are various provisions for time off which employees are expected to use to meet any obligations they have away from work. Employees are able to earn "paid time off" or vacation time which they can use as they see fit . They can also take time off or "leave without pay" if they do not have any "paid time off," but "leave without pay" is tracked by the company. Excessive use of it (40 hours/year is considered average; 80 hours/year is excessive) is cause for dismissal. Also, an employee with more than 40 hours of "leave without pay" within a year is automatically ineligible for a merit pay raise. If an employee is absent three consecutive days without calling in, the employee is considered to have "voluntarily resigned," or quit. As the manager of this company put it. "Once the word gets around that someone 'voluntarily resigned,' employees get the message that they need to call in." To cover for employees who use their "paid time off" or "leave without pay," the company cross-trains all of its employees so that they can step

all of them started their businesses without any bank financing and none of them received 85% financing from the FSM Development Bank. In most cases they began either debt free or with very little debt. Every business owner had a different story to tell, but together they described five basic scenarios in which the business was able to start essentially debt free or at least free of any large debts: "fire sale" and government privatization; small scale retail; small scale export; partnership; and family business spin-off.

"Fire Sale" and Government Privatization

A "fire sale" occurs when a business wants to get rid of goods that have been damaged by a fire. But the term can be used to describe any attempt to unload goods that have lost most of their value due to damage. When damaged goods are sold in a "fire sale" they are always sold at a heavy discount or even given away. The purpose of a "fire sale" is not to make money, but to get rid of the damaged goods.

During the Trust Territory period, there was an attempt to turn over various government owned operations to local business owners to run as "for profit" businesses. Many of these attempts at "privatization" ended in bankruptcy, with the business having little apparent value. As a result, the TT government was almost willing to give away the business if they could find a local businessman willing to operate it.

Being handed a business obviously eliminates the need to borrow the money to buy one, but this in no way insures that the business will be successful. Today, much of the discussion about privatization centers on how to insure that no one has an unfair advantage in picking up a government asset or operation, but the real issue is – and always has been – finding someone with a viable strategy for turning what had been a government operation into a long-term, self-sustaining business.

One of the companies that was able to do this successfully has now become one of the largest transportation companies in the FSM. The company began when three local Micronesians put together $6,000 and purchased the privatized government-run stevedoring operation after it had gone bankrupt. The company had virtually no hard assets. It leased the dock and warehouse facilities that the state continued to own. The government could have required the new company to go to the bank and get a loan to purchase the dock and the warehouse, but by providing an attractive lease rate the government kept the fledgling company out of debt. Furthermore, the government retained the assets that it could later lease to another operator if the new buyers failed. In effect, the government lent the new company its assets rather than lending it money (through a development bank loan). These assets, it should be noted, were far easier to recover than a defaulted loan would have been.

The newly established stevedoring company hired only a small full-time staff – president, secretary, accountant, foreman – and hired stevedores only as they were needed. To keep from going to the bank to borrow money to cover its operating costs, the company made an agreement with the shipping companies to be paid in advance for the stevedoring services the company provided. The shipping companies were more than glad to accommodate the new company in this way since it was in their interest to have a reliable stevedoring company to offload cargo. Hence, not only did the company start debt free by virtually being given the capital assets it needed to operate, but it adopted an operating strategy that allowed it to operate debt free as well.

We might be tempted to dismiss this model as useless since it is taken from a time when the conditions were different from what they are today. But the same opportunity still exists. State and national governments in the islands are currently looking for ways to put more government operations in the hands of private business. For the entrepreneur, the key to making this model work is keeping debts low. For the government, the key is finding a committed, efficient operator rather than someone who just wants to pick up a cheap asset.

Small Scale Retail

One of the largest general retail operations in the FSM began out of the back of a van. The key to its success was identifying suppliers for a product (cigarettes) that was high in demand and for which there was a high margin (the difference between its wholesale price, what the store owner pays, and its retail price, what the buyer or end user pays). Another key was constantly re-investing in the business so that the business moved from the van to its own building thereby allowing the business to expand into an array of related goods and services at very low costs.

The determining factor in whether or not a general retail business succeeds or fails in Micronesia has not been the availability of low cost financing. Although this can help, what is more important than financing is knowing where and how to buy. Finding low cost goods in markets as far apart as Hong Kong and Los Angeles and knowing how to order and ship

Credit

Credit and collection policies ranged from pre-payment schemes to tracking and managing bad debt.

- One of the state utilities, which enjoys a 104% collection rate, deducts the estimated utility bill directly from the checks of government employees. Consequently, some of its customers have a positive balance, which explains the utility's 100+% collection rate.
- A business owner who operates a small village store allows older people to spend up to the amount of the check they receive each month from the government. The owner of the store refers to this as credit even though he collects the checks up-front.

- One company combines a pre-payment arrangement for its employees with a managed credit system for non-employees. Employees are awarded shares in the company as part of their benefit package. They are then eligible for credit up to the value of their shares. The same company offers credit to non-employees based on a credit application developed by the company. In 2000, the company wrote off only 1.5% of its annual sales revenue for bad debt. Note: [The head of the company said that the government was one of its worst creditors and gave as an example a government agency that had to be evicted from one of the company's buildings because the agency failed to pay the rent. An owner of another company complained about slow payment by government agencies. The company was owed over $60,000 by the government.]
- The owner of one company, that has a policy of not extending credit to local individuals (as opposed to local businesses), admitted that she does extend credit on the basis of need, but that she has become less willing to do this because she feels she has been taken advantage of in the past because she has her own business.
- Finally, the most liberal company owner I spoke to allows some of his customers to buy on credit, but he requires these customers to pay for past purchases before they can make any more purchases on credit. The owner admitted that this policy did lead to some bad debts that had to be written off, but he was not

wants to introduce a new product, the same advantage applies. Unlike his one product competition, a diversified business owner can afford to experiment with the introduction of new services and products with little risk or fear of competition because his costs to introduce a new product or service are so low compared to the costs of his non-diversified competitors. In many instances, the diversified business does not need to borrow money or take on investors either of which can be a major additional cost to the business. Because its costs relative to its competitors are so low, a diversified, general retail business can afford to sell a new product at the lowest possible price and still make a profit. Consequently, it is very hard for anyone to compete with them.

Managing the Business

Despite its obvious advantages, a diversified business in Micronesia also has its problems and challenges. In order to grow, the business must continue to diversify, and in order to diversify the business owner must put some of his profits back into the business to develop and introduce new goods and services. These new goods and services may not always be profitable, and this lack of profitability may not be easy to see if the overall business is earning a profit.

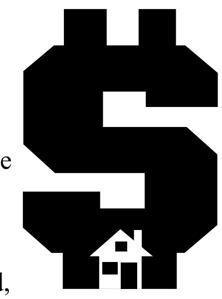
The business owners in Micronesia who have diversified into a variety of products have been required to obtain the expertise needed to run a large, complicated business. Some of their businesses have as many as a hundred employees, with annual sales as high as four million dollars. To run a business this size requires business skills in management and accounting that were unnecessary when the business was much smaller. Most of the business owners I spoke to, talked about the constant challenge of keeping up with the demands that their businesses made on them. Since almost none of them had any formal business training, several of them met this challenge by bringing in managers and accountants from the US, the Philippines and Japan. Some sent their children to US universities to get degrees in business. Some recruited and hired local Micronesians who already possessed degrees in business.

I asked several successful business owners in Micronesia how they handled a variety of management issues such as credit and employee absenteeism. I expected a general pattern to emerge from their responses, but none did. In every area, the owners I spoke to took a different approach.

by container loads are critical skills for those who want to move from a roadside stand into large scale general retail store.

Small Scale Export

Economists emphasize the importance of export businesses because they bring in dollars from outside the local economy to counterbalance all of the dollars that are leaving the local economy to purchase imported goods and services. According to the economists' model, the more export there is compared to import, the wealthier the state or nation. In Micronesia, however, export volume is very low compared to what is imported. Consequently, a lot of attention and money have been dedicated to developing large fishing and agricultural export businesses. For the most part these efforts have been unsuccessful. Among the business operators I talked to, there were successful fishing and agricultural exporters, but these were low cost, low capital, no debt businesses with a very high margin.



One of the business owners I talked to was an entrepreneur who exported reef fish in coolers from Chuuk to Guam. He was able to ship approximately five hundred pounds of fish a week. He had virtually no start-up costs. All he needed were his coolers and his truck to haul the fish to the airport. He estimated that after all of his expenses (fish, ice, freight) had been paid, he could keep about one dollar for every pound of fish he shipped. So, every month he was able to make between $2,000 and $2,500.

It should be pointed out, however, that exporting reef fish is not a sustainable business nor can it be the basis for a local business development strategy in Micronesia. It is well documented that the reef fish population in all of the island groups is large enough to support only local subsistence use. It cannot support high volume, commercial export. The fish exporter who spoke to me was finding it increasingly difficult to buy as much fish as he needed, and was, therefore, trying to find a new business to get into. Perhaps this same model (low start up costs, low operating costs, strong market demand and high margins) will work with Micronesian aquaculture products (sponges, corals, giant clams, trochus), but at this time there are still no successes that we can point to.

In agriculture, the big success story has been betelnut export. Again, these are small scale operations with low start-up costs, low operating costs, strong market demand and high margins. The only problem is that local demand makes it hard to find any surplus for export. Little consideration has been given to planting and growing new betelnut trees. Although this would involve some expense and possibly require a loan, the return on the investment would easily justify it.

Partnership

Partnerships that take advantage of the different skills, experiences and connections of the partners have been successful in Micronesia. Often the partnership is between a husband and a wife, but it can also be between families, friends or merely business associates. Often the partnership unites a Micronesian and a non-Micronesian (Western or Asian), but it can also be between Micronesians.

As a start-up strategy, a partnership is effective because the business benefits from the combined, complementary assets of the partners-assets the partners do not have to purchase or acquire by hiring outside expertise. Among the business owners I spoke to, one was a husband and wife partnership where the husband is Western and the wife is Micronesian. The business they started was a travel agency. The wife had worked for the reservation department of Continental Airlines and had experience in the travel industry. The husband had administrative, management experience. The wife owned land that eventually became the site for the business. The husband had a job with the government that provided the family with an income to cover living expenses until the business began earning a profit.

Another partnership I dealt with was between a Western couple and a Micronesian landowner. Together, they opened a small hotel. The Western couple provided management experience and knowledge of the US market. The Micronesian provided the site for the business and a network of connections in the community that were useful in dealing with local politics.

Family Business Spin-off

profits of several thousand dollars every month. The other measure of a company's size, number of employees, is also impressive. Some of these same diversified companies have between fifty and one hundred employees.

Successful diversification in Micronesia follows two basic rules or principles. First, diversification works only if the initial core business is successful. The business owners I spoke to said their core business was initially quite successful and provided the capital for further expansion. Second, diversification is most effective as a growth strategy when the business diversifies into businesses that complement and enhance the competitiveness of the core business. For example, a construction business is complemented by the ownership of a hardware store. For one business owner in Micronesia there was a similar complementary relationship between construction, commercial buildings and commercial businesses. The business owner, who owned a small construction company, used his employees and equipment (when he did not have a contract to build a building for someone else) to build a commercial building for himself with spaces for small storefronts on the ground floor and rooms for rental apartments and hotel rooms on the second floor. Some of the storefronts he rented to local businesses, but some of them he kept for himself to use to open his own businesses. The upstairs apartments and rooms he rented out to construction crews and business travelers.

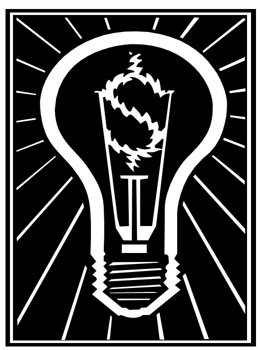
Diversification can give the Micronesian business owner a significant advantage over his local competitors since it is relatively inexpensive for him to use the personnel, equipment and facilities of the core business to start and operate an array of other businesses. This advantage is easy to see when one compares a general retail business (which is, in effect, a specialized–one product–retail business that has diversified into several products) with a specialized retail business. If a new specialized retail business opens and introduces a new product, it does so at a significant cost and risk. If the new business is successful, all the general retail business owner must do is clear some room on his shelves to add the same product. In most cases, the general retail business is not required to find a building to operate out of, nor does it need to add employees or equipment to sell the new product. As a result, his overhead costs (the costs involved in selling a product other than the cost of the product itself) for selling the new product are almost nothing compared to the overhead costs of a specialized retail business.

If the situation is reversed and the diversified general retail business radically changing the structure and the nature of the business. In other words, the difference between a small exporter and a large exporter in Micronesia is more than size. They are two different businesses requiring different personnel, different facilities, different infrastructure and different markets and buyers.

The FSM governments, both the national and the state governments, have tried to address the problem of size by financing the start-up and operation of several large fishery (fresh tuna) and agricultural (coconut soap) ventures. None of these operations, however, has ever been turned into a self-supporting, profitable business. They exist more as government departments, run by government appointed managers and dependent on the government for some form of subsidy, than they do as independent businesses.

The business owners that I spoke to told me that the solution to the problem of small island markets is not large scale export businesses but diversification into an array of related goods and services. Some of the following examples have already been mentioned, but it is useful to list them here to show how diversified some of these businesses are:

- One business owner went from a travel agency and car rental to a multi-unit apartment building, to a twenty-five room hotel and restaurant. They have recently added a bar, and a dive shop is planned for future expansion.
- Another business owner went from selling cigarettes out of the back of a van to a general retail clothing store, to a hardware store, to a construction company, to developing land for a multi-unit housing complex.
- Yet another business went from stevedoring , to construction, to sand dredging and concrete blocks, to a hardware store, to propane distribution.



Several other examples could be added; diversified businesses are so common in Micronesia their existence hardly needs to be pointed out. What is not fully appreciated is how large some of these businesses are. Some have monthly gross sales in the hundreds of thousands of dollars. Of course, these same businesses have comparably high monthly expenses. But even if their net profit is only five to ten percent, they are making

There are several large, diversified family business in Micronesia. Within each of these businesses are several small businesses that were started after the main business was begun. In many cases, either a family member starts these later businesses or the business is started and turned over to a family member to run. In either case, the new business starts with so many benefits and advantages that it does not need to borrow money for its start-up – or if it does, it only needs to borrow a fraction of what it would have borrowed if there had been no family assistance.

Family assistance in a small business start-up can take many forms. No interest and low-interest loans are common. But more often the assistance is non-monetary, like a piece of land or a place to operate within the main business building for either a very low rent or no rent at all. Sometimes, the new business is allowed to “borrow” employees and equipment. For example, the parent company’s can lend the new company its bookkeeper or clerk for a day or it make a truck and driver available to make deliveries. As a result, the new business owner is not required to hire these additional people nor purchase or rent (an option that is often not available) additional equipment. There are also many non-material ways the parent business helps by providing encouragement, advice and connections to possible suppliers and potential customers.

Another significant, but often overlooked way in which the parent business can and does assist the new start-up is by allowing the new business to ship its merchandise and equipment along with the parent company’s shipments. Shipping by the box or even the palette load is so expensive in most parts of Micronesia that a retailer almost has to ship in container load units. Twenty foot containers that can hold 20,000 lbs. to 30,000 pounds of goods at $.10 to $.15 per pound; a container from the mainland costs approx. $3,000. Third class mail is fairly inexpensive, but it can take forever to arrive, and so is far too unreliable for most businesses and especially a business that is a new start-up.

Dual Perspective, Dual Strategy

Almost as important as having a low cost financing strategy to start the business, is having a dual perspective and a dual strategy. Micronesian business owners described the need to have this dual perspective, dual strategy in comments like, “you have to know the local customs and observe them,” followed in the next sentence with the observation that, “you have to constantly remind your family as well as your employees that this is a business."

The need to take into account the competing demands of family and business in Micronesia is fairly obvious. How one actually accomplishes this is not so clear. It begins with seeing the business from both a traditional, Micronesian perspective as well as from a Western, capitalist perspective. Among the successful business owners I spoke to, this dual perspective was built into the business at the start. Some of the businesses were owned and operated by a partnership in which one of the owners was a Micronesian, the other was an expatriate from a country where Western business practices were the norm.

Many of these partnerships were also married couples. Consequently, it was not surprising that when some of these business owners were asked how they balanced the competing demands of local culture and a Western business, many of them used the analogy of a marriage. Just as in a marriage, the partners in a business in Micronesia must be sensitive to the needs and the values (Western and Micronesian) of each other. In a spirit of mutual respect they must work to find a way to reconcile their differences. Sometimes these differences require a Micronesian solution; sometimes they require a Western solution; sometimes some combination of the two is needed. Different partners in different situations find different solutions. (Several examples of various solutions are given in the section on personnel issues and collection issues.) When no attempt is made to find a mutually acceptable solution or one cannot be found, the partnership and the business fails. As one business owner observed, "It is just like a marriage; by the time the lawyers are called in, it is too late."

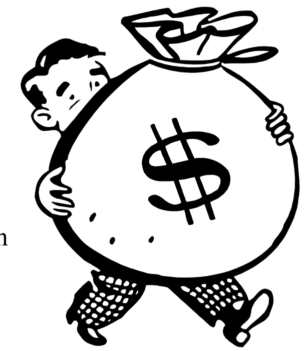
Another aspect of having a dual perspective is having a two-fold strategy that includes both an inside and an outside network to call upon in the operation of the business. As one expatriate business owner said to me, "You have to have a strong local partner." "Eventually," he said, "if your business is successful or looks like it will be successful, your local competitors will look for ways to create problems for you." This reaction to business success is not unique to Micronesia; it is common practice everywhere. But if your partner, or your partner's family, is strong politically, socially or financially, local competitors will be reluctant to attack or attempt to undermine the new business.

An outside as well as an inside network is also important because a Micronesian business must be able to connect with customers and suppliers outside of Micronesia. Some of the business partners I talked to were from

the US, the Philippines, or Japan, and had their own network of connections in those countries. Some of the business families in Micronesia that have long standing ties to Japan use their connections to identify suppliers. In a similar manner, ex-Peace Corps volunteers and other recent expatriates from the US have used their knowledge of the US tourism market to promote their business. A recent immigrant from the Philippines married to a Micronesian uses his contacts in the Philippines to find low cost suppliers.

Growing the Business

There are several obvious advantages to starting small in Micronesia, but starting small does not mean that they must remain small business. Several of the business owners that I spoke to started small, but their businesses are now quite large, demonstrating that it is possible to grow a large business on a small island. But, growing a large business on a small remote island in Micronesia is not easy. Because of the many barriers that limit business growth in the Western Pacific, it is analogous to trying to make water flow uphill.



A business owner in Micronesia who focuses on the local market is limited by the fact that the local market is very small. Regardless of what the product or service is, the market is soon saturated. The only exception to this that I am aware of is betelnut, and here the limiting factor is not demand, but supply.

If the business is a small export business, it is difficult, if not impossible, to gradually expand it because the existing transportation system cannot accommodate gradual growth. Continental Airlines, the only air carrier in the FSM, has limited cargo space which is not always available even for small volume shippers. PM&O, the only surface carrier for parts of the FSM requires that the shipper ship in container loads. A twenty -foot container holds twenty thousand to thirty thousand pounds which has to be full or almost full before the per pound shipping costs are economical.

Going from a couple of thousand pounds per shipment to twenty to thirty thousand pounds is a big leap and it cannot be accomplished without