Editorial: Entrepreneurship and Small Business Development in Small Islands

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ABSTRACT. This paper reviews the limited literature on successful small business and entrepreneurship in small islands, with a focus on Pacific and European research. It argues that the notable specific contribution of this collection is its focus on tangible examples of successful island entrepreneurship, and the specific challenges towards entrepreneurship faced by island people. This approach is micro-oriented and very close to the actual human entrepreneurs that lead and shine by example. This is contrary to much received wisdom, which tends to be overshadowed by macro-structural and institutional approaches that emphasize chronic vulnerability.

SOMMAIRE. Cet article passe en revue la documentation limitée concernant la réussite des petites entreprises et de l’entrepreneuriat dans les petites îles, et se concentre sur la recherche pacifique et européenne. Nous soulignons que le côté remarquable de ce recueil est qu’il est axé sur des exemples tangibles de réussite en entrepreneuriat insulaire, et sur les défis spécifiques auxquels font face les populations des îles. Cette démarche est de type micro, très proche des entrepreneurs humains réels qui brillent par leur exemple. Ceci va à l’encontre de l’opinion répandue, qui tend à se laisser dominer par les démarches macrostructurelles et institutionnelles mettant l’accent sur la vulnérabilité chronique.

An entrepreneur is defined eclectically as a person who, driven by opportunity, organizes and manages a business and assumes the risk for the sake of profit (Guralnik, 1980). This definition, however, tells us nothing about how difficult or easy it may be for such an entrepreneur to develop in a particular geographical, regional, socio-economic or cultural context. Nor does it tell us whether the act of being an entrepreneur renders this activity exceptional, habitual or anywhere in between the members of a particular social group. Are entrepreneurial skills really scarce by definition? And can the experience, nature and overall challenges of entrepreneurship be somehow patterned in terms of geographical context?

The focus of our particular concern here is with small island societies. These often have to contend with the various implications of their islandness when it comes to “doing business”: limited land area and finite resources; limited domestic markets and client bases; physical isolation which means that significant transport costs come into play in order to access distant alternative markets; and with local consumption patterns—often managed by a powerful local mercantile elite—that prefer imports from the metropole to locally made commodities. Even where small island territories have good quality and competitive products, there are difficulties in sourcing effective research and development capability, skilled human resources, suitable terms for financing and/or appropriate technology. Moreover, local entrepreneurial skills are deemed to be scarce and local business sectors seen as relatively small and narrow-based, concerned predominantly with providing for the basic needs of the local population with products having low value-added.
content, as opposed to export and related activities dealing in higher value added. Finally, the more common strategy and attitude amongst islanders appear to favour intrapreneurship, where individuals seek to become innovative and creative within the confines and protection of an existing public or private organization (Armstrong et al., 1993; Dolman, 1985; Doumenge, 1985: 86; Encontre, 1999; Fischer and Encontre, 1998; Payne, 1987). Note that these observations apply generally to all island societies, increasingly so with decreasing size of the resident island population, and irrespective of whether these islands are listed as having developed or developing economies.

What then are the prospects for fostering entrepreneurship and small business development in small islands? One major theme in the literature is the importance of good economic management and the creation of an enabling policy and a sound institutional environment conducive to business investment and enterprise. The focus here is primarily macro and institutional, looking at what governments and arms-length supporting agencies (including banks, development corporations, vocational colleges, universities and non-governmental organizations) can do to generate “capacity building” and “resilience,” facilitating a more business- and entrepreneur-friendly environment (e.g. Briguglio et al., 2006). This strand seems to have taken over the more fatalistic assessment of the island condition as inherently and chronically vulnerable, particularly as it affects small island developing states (SIDS) (e.g. Commonwealth Consultative Group, 1985; Harden, 1985). Structural vulnerability would therefore only be usefully addressed via concessionary, bilateral or multilateral arrangements struck mainly with metropolitan powers, rather than by any endogenous policy initiatives by island governments (e.g. Briguglio, 1995).

This Collection

This collection of papers adopts neither of these two approaches. Instead, a pragmatic and inductive perspective to island entrepreneurship is assumed, bereft of assumptions and pre-set expectations, which anyway tend to be depressing and discouraging. The focus is squarely on tangible examples of successful island entrepreneurship (as defined below), and then moving on from there towards modest attempts at generalizing beyond the immediacy of the data, exploring its implications in the policy sphere. This third approach is micro-oriented and very close to the actual human entrepreneurs that lead and shine by example. Moreover, by looking squarely at what is happening, the approach is less constrained by received rhetoric and therefore also more optimistic and better suited to providing actual examples of good business practice. We have real stories of real people to tell.

Five of the papers in this special collection (Baldacchino and Dana, Fairbairn, Keskpaik, Novaczek and Stuart, Prasad and Raj) were presented, in earlier draft formats, at an international conference on the theme of “successful small business and entrepreneurship from small islands,” organized in Malta in February 2006 by the Foundation for Human Resources Development, with the support of the European Commission, Malta Enterprise, Malta College for Arts, Science and Technology, and the Australian Government International Scholar Support Scheme. This conference concluded the NIS-SOS Project (more below), some of whose research outcomes have already appeared in this journal (Baldacchino, 2005a). Other publications based on the same research material include Baldacchino (2005b, 2005c) and Baldacchino and Vella Bonnici (2005).

Defining Success

In investigating the presence of small firms on islands which appear to buck the pessimistic scenario described earlier, firms have been identified and deemed to qualify as
successful in terms of five arbitrary variables. The selection has been guided by a desire to seek extremely exceptional firms (thus keeping the absolute numbers of such firms low) which maximize value added at home:

1. **local ownership**, meaning shareholder majority or exclusive control of the firm is vested in individuals who are native to, and/or living on the island;
2. **small size**, meaning firm has up to 50 employees or outworkers;
3. **manufacturing**, meaning firm is producing a commodity that typically has weight, volume or form, which can be separated from its producer in the act of sale or purchase;
4. **export orientation**, meaning the bulk of the firm’s manufactures are destined to off-island markets and clients and have been so for at least three previous consecutive years; and
5. **technology adaptation**, meaning that any key technological processes used by the firm in the manufacturing operation have been customized, if not invented, by the locals.

Just to remind us that small islands are not doomed to being platforms for the conspicuous consumption of the products of others, as received wisdom would suggest, we need only think of Bob Marley. A quarter century after his death, he is not just recognized as a famous singer from the island state of Jamaica, but the man behind a fully-fledged cottage cultural industry with a wide, international export appeal. He remains a global music icon, in spite of his “small island developing state” background. Reggae is an industry (and not a single firm) that is successful according to the five criteria elaborated above.

**Pacific Research**

As far as research into small island entrepreneurship is concerned, a landmark study is that undertaken in the late 1980s into the nature, origin, role and economic contribution of entrepreneurs in the Pacific region, the world’s largest collection of small island territories. This research, coordinated by the East-West Center at Honolulu, Hawai‘i, delved into the challenges of entrepreneurship and small business development in a number of Pacific island countries, providing some insights into the operational problems faced by indigenous entrepreneurs, their performance and factors contributing to their success or failure (Fairbairn, 1988).

Earlier research in the Pacific by such social anthropologists and geographers as Belshaw (1964), Epstein (1968) and Finney (1971) revealed much about the nature and motives behind indigenous entrepreneurship during the early stages of contact with the monetary economy. What emerges from these studies is that entrepreneurship among Pacific island countries is a complex phenomenon calling for an understanding of cultural, social and other, non-economic, influences. Thus, many individuals in Papua New Guinea were found to be predisposed toward entrepreneurial activity, an attribute that stemmed largely from the traditional culture where trade under the subsistence economy was conducted using shell money. In Fiji, many entrepreneurs had turned to business and other economic activity as an outlet for frustration over traditional authority and as a means of self-expression. In another context, the ability to adopt European attitudes in the way business was conducted was found to be a key to success.

The scarcity of formal entrepreneurs among Pacific island countries is endemic and most severe in the case of indigenous islanders who, for a variety of reasons, have had a limited impact on local business life. Major constraints include the absence of an entrepreneurial tradition and the prevalence of hybrid economic structures in which subsistence
agriculture is substantial. There is also the widespread commitment to traditional value systems and practices that accord a low status to entrepreneurs vis-à-vis other professions such as government administrators and religious leaders. Inefficient government policies have also frequently stood in the way, stifling the enthusiasm of would-be entrepreneurs.

Confounding these issues are those of a more practical nature: for example, the difficulty of securing outside capital for purposes of starting or carrying on a business. Poorly developed financial sectors, which in some cases comprise little more than a single commercial bank, have been a major barrier. And where financial services have reached a more advanced level, accessing credit can be difficult because of complicated loan requirements, language difficulties and lack of acceptable collateral. The problem is exacerbated by the prevailing system of property rights in many Pacific island countries in which land is held under customary tenure and therefore cannot be used as security for a loan.

Furthermore, indigenous entrepreneurs tend to be exposed to community pressures that can seriously threaten the financial viability of business, including demands for financial contributions to meet customary obligations and other village activities such as the building of village churches and schools. Pressure on local entrepreneurs to extend trade credit beyond reasonable levels is also common. This pressure can make life very difficult for indigenous entrepreneurs, and heighten the risk of failure.

The scarcity of indigenous entrepreneurs in the formal economy has meant that business life in the region has tended to be dominated by “outsiders,” predominantly expatriates, both European and Asian, many of whom are associated with foreign-owned companies. As noted, indigenous entrepreneurs operate at the margin and are generally involved in small-scale enterprises such as small village trade stores, transport services and informal sector trading. Nonetheless, in many Pacific island countries, non-indigenous residents, notably those of part-European and Asian ancestry and foreigners who have chosen to settle in the islands, have achieved considerable success as entrepreneurs.

It is in relation to informal sector activity that the involvement of Pacific islanders in business is most extensive. Operating outside the legal and organizational framework of the formal sector, informal activity largely involves street and door-to-door selling of fresh produce and handicrafts and is dominated by women. For many Pacific island families, this is the only source of cash income, employment, and avenue for participating in the cash economy. To some extent, too, informal trading has served as a training ground for would-be entrepreneurs and a means of maintaining traditional skills, as in the case of handicrafts (Dunlop, 1999).

**European Research**

Surprisingly similar observations have been made on the basis of extensive research carried out more recently in the NISSOS Project: a study of successful small-scale, export-driven manufacturing from five European island regions (http://www.nissos.net). The economic development of these island territories—Åland (Finland), Iceland, Malta, Saaremaa (Estonia) and the Scottish Isles—is not comparable to the situation in the Pacific. All (except Saaremaa) have had open, monetized economies, mature product and service markets, a very strong European work ethic, and a business culture that looks positively at entrepreneurship, for many decades. Estonia only recovered its independence (from the Soviet Union) in 1991, but has been catching up very quickly with capitalist-driven development, benefiting mainly from a temporary wage cost advantage. All these island territories are today either full members of the European Union or (in the case of
Iceland) of the European Economic Area. Yet, as with their Pacific island counterparts, extensive intrapreneurship was common in all island locations, with would-be entrepreneurs spending considerable time incubating and perfecting business ideas slowly and patiently in the context of employment or with the support of their former employer. Strategic flexibility remains a key consideration, especially when demand for particular leading products or services is eroded, or when key clients are lost. Most entrepreneurs are male, but there are significant, successful, female role models too (see below). Business life in the region has also tended to be dominated by “outsiders,” not in this case predominantly expatriates, but “glocal” individuals who are from the island but have spent considerable time working and/or studying in metropolitan locations, and/or who were associated or were employed with foreign-owned companies.

Island Entrepreneurship: The Weaknesses of Mainstream Theory

Entrepreneurship is generally recognized as a powerful driver of economic growth. Entrepreneurs have been depicted variously as innovators, risk-bearers, managers, suppliers of capital, or a combination of these functions (Fairbairn, 1988: 17). Building up the stock of entrepreneurs and entrepreneurial skills represents a vital challenge for island territories. Yet, mainstream economic theory, as represented by neo-classical analysis, is of little help in offering guidelines for boosting the availability of entrepreneurial skills, and even less so in such an imputed, structurally challenged geographical context. Conventional analysis postulates that, in the short term, the availability of entrepreneurs largely depends on the rate of return (or reward per unit) for entrepreneurial services. High returns will induce more entrepreneurs to offer their services and, conversely, low returns will reduce supply. At any given rate of return, and in the absence of market imperfections, the demand for entrepreneurial services will always equal supply. This implies that there can never be a shortage of entrepreneurs. And so, as far as the long term is concerned, economic development forces, including the effects of education and technology, will ensure an expansion in entrepreneurship to accommodate demand.

In reality, this rosy, mechanistic scenario has limited applicability for island territories. For one thing, the extent to which islanders respond to an increase in the so-called return or entrepreneurial wage is likely to be weak, mainly because of lack of basic skills, low motivation, perceived high risk and availability of less risky wealth generation avenues. Market imperfections and inefficient government policies are further impediments and together these factors add up to a supply curve that is highly inelastic. Not surprisingly, the implication is that, under the present circumstances, major improvements in the supply of entrepreneurs will be slow.

Moreover, the theory discounts the strategic opportunism that characterizes many islanders the world over. This involves behaviour grounded in economies of scope (and not of scale); and the flexible and opportunist operation in monetized, non-monetized, public/formal and intermediate/informal (grey) economies, both local and foreign, for overall economic gain. This typically involves both employment and self-employment.

The life-histories of the inhabitants of small islands, where meticulously documented, reveal a complex juggling of the pros and cons of home and away. Thus, both Isaac Caines, from the Caribbean island of St. Kitts (profiled in Richardson, 1983: 54–55) and Kawagl, from the Melanesian South Pacific (profiled in Brookfield, 1972: 167–68), demonstrate an uncanny skill repertoire in the economies and temporalities of scope which include entrepreneurship, flexible specialization, public sector employment, and stints abroad.
Occupational multiplicity is a natural survival strategy assumed by individuals or households in small-scale settings (Comitas, 1963: 41; Philpott, 1973: 88; Carnegie, 1982: 13). The pursuit of several occupations, either simultaneously or successively, and in more than one geographical location, is one characteristic of individuals who inhabit areas where employment or revenue opportunities are limited, and more so where they are seasonal or precarious (Frucht, 1967: 296; Trouillot, 1988: 32). They would typically involve both waged and non-waged labour, petty commodity production, subsistence fishing or agriculture and homeworking. It is a natural defence mechanism, a “security-centered survival algorithm” (Brookfield, 1975: 56–57) and a viable tactic in the eyes of uncertainty; more so if the small island economy’s experience is typically “hypothermic” (Baldacchino, 2000), experiencing a sequence of stop-go, boom-and-bust, feast-and-famine situations (Blackman, 1991: 1; Fergus, 1991: 570; Looney, 1989: 76; Pahl, 1988: 46–48; Price, 1988: 1).

Research Insights

While there remains much to be learnt about the nature of island entrepreneurship, both the Pacific and European studies referred to earlier, as well as the contributions to this volume, provide some valuable insights. Our wide-ranging sample of entrepreneurs is ambitious. They view their involvement in business as a means of providing cash income for themselves and their families, an opportunity to be in control of their own lives, acquire some prestige, extend influence, and even a means of winning political office. Interestingly, overall, the accumulation of wealth for its own sake did not figure prominently as a motivating factor.

Most island entrepreneurs operating in traditional economic sectors (such as food or natural product processing) are mature individuals, typically over the age of 40, who were widely respected in their community, with strong family ties and social responsibilities (Hailey, 1988). In contrast, those engaged in more technology or knowledge intensive products (such as computer software) tended to be younger and generally well educated. Practically all had work experience overseas, had studied at a technical institution or university before returning home, or had been employed with an international company, thus bringing along with them savings, know-how, business and client contacts that would prove crucial to the motivation to start, and maintain, a successful business. Others had benefited from a period of paid employment locally, either in another business or government service. With a few exceptions, all had drawn upon financial and labour resources from their own savings and of their extended families to start, and eventually upgrade, their business. The few who source bank loans do so by securing them against personal guarantees. Many are “poor innovators but good imitators” in the type of business established (Ritterbush, 1988). An example is the common tendency to copy those businesses perceived to be successful, a practice that invariably leads to overcrowding and business failure.

Being small and based on a peripheral island does not appear to present disadvantages in exploiting the opportunities presented by the growth of modern information and communication technologies (ICTs). The internet has witnessed and spawned a completely new range of services and software. The latter are, in a sense, manufactures since they are tangible and can be bought and sold via operations that are distinct from those involving their actual production. Still their virtual nature, their weightlessness and portability remove any disadvantages that small firms on small islands might have to bear in relation to transportation costs.
Indeed, managing to identify and maintain clients abroad is always a challenge to SMEs, and all the more so to firms which are located in relatively remote island locations. This condition may oblige specific tactical measures. Working in cosmopolitan centres, and with multinational firms, helps one to get a feel of global markets and to nurture and plug into useful contacts and cutting-edge technologies that can prove crucial for business survival. However, the lure of the island is strong. Central to the “quality of island life” is its rich “social capital,” defined as “networks, together with shared norms, values and understandings that facilitate co-operation within and among groups” (Helliwell, 2003: 9). This is in sharp contrast to the frenetic, stress-laden and competitive environment of the city and can be strong enough to draw would-be entrepreneurs back to their island, and to encourage others to immigrate. It is the ability to become “glocal”—combining the desirability of the island milieu with the necessity to be globally competitive—that is a major, but not impossible, challenge. Both island roots and off-island routes need to be privileged. This detail cannot be stressed enough: many island-based entrepreneurs are convinced that they would likely enjoy larger turnovers if their businesses were located in metropolitan areas: but they remain determined to keep their firm located “on the island” because of the “quality of life” factor.

Branding and customer loyalty are important considerations. Many small island firms trade products with substantial local raw material input and so can benefit handsomely by associating their product with what their home island stands for. It is vital for such small firms to support, and “piggy back” on, the branding exercise that their governments, marketing agents and the advertising industry advance. Here, the “lure of the island” has a captivating and enduring appeal, especially amongst consumers in the industrialized world, meaning that islands stand out as tourism destinations and tourists stand out as customers for island products (Baum, 1997: 21; Lockhart, 1997: 5; Royle, 2001: 188). Moreover, the association means that any off-island competition for similar products is skilfully avoided: a pepper sauce from Trinidad is not just any pepper sauce; it is by definition protected from international competition. The same can be said for coconut soap from Fiji (e.g. Baldacchino, 1999), preserves from Prince Edward Island (Baldacchino, 2002) or bottled water from Iceland.

The human resources required to develop and maintain up-market products cannot be short of professional. Many island firms explain that their employees (which include family members), while all “craft trained” in-house, have been sourced mainly from suitable post-secondary institutions and include a number of graduates. Many have been trained or sent on work experiences off island. Many are bilingual or trilingual, with English recognized as a key international language. Some employees have benefited from apprenticeships with international firms. Above-average salaries and lean hierarchies keep staff turnover at extremely low levels, reward staff investment in higher education, and recognize the scarcity of skilled, specialized yet flexible labour in small island-based labour markets.

Women have so far played a peripheral role in the business life of many island economies. Prevailing socio-cultural norms may dictate that the women’s role is first and foremost concerned with the performance of domestic chores and child rearing and, not uncommonly, that business activities are the domain of males (Hailey, 1988; Fairbairn-Dunlop, 2001). Women may also be handicapped by the property rights systems prevailing in some countries which deprive them of the right to own assets that can be mortgaged to raise funds for business and other purposes. Women have been most active in informal
trading and in selected areas of the formal economy such as handicrafts, restaurants and
dressmaking. Nonetheless, there are cases of women who have achieved outstanding suc-
cess as entrepreneurs and who deserve to be showcased. The late Aggie Grey, of Samoa,
is the founder of what is now the largest hotel/resort complex in Samoa
(http://www.aggiegreys.com/). Wilma Malcolmson, who runs Shetland Designer,
manges an operation with some 30 outworkers that produce a well-branded luxury garment
line, based in the Shetland Islands of Scotland (http://www.shetlanddesigner.co.uk/).
Katrin Olafsdottir, is the managing director of Lysi, a very successful fish-based health
product manufacturer in Iceland (http://www.lysi.is/is/english/; Baldacchino and Vella
Bonnici, 2005).

Conclusion
Islanders face, in varying degree, challenges in relation to entrepreneurship and small
business development, many of which are contoured by their idiosyncratic geographical
predicament. However, there are success stories that provide hope and serve as encour-
gaging examples to others. This collection of papers showcases the entrepreneurial experi-
ences of islanders and island territories from different parts of the world. It offers tangi-
ble examples of small business success, critically suggesting reasons for this success, as
well as for its shortcomings when success is not sustained. Back to Bob Marley; his
advice, “emancipate yourselves from mental slavery” (Marley, 1980), may easily resonate
with the tenet of this unique collection of papers. Successful small business from small
islands is possible—even if deductive, macro-driven, analyses may suggest that it simply,
by definition, can’t be.

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