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The Culture of Successful Palauan Enterprise

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Background to the Palau Study

This paper presents the results of the Pacific Islands Development Program's (PIDP) study of the culture of successful business enterprise in Micronesia. The study commenced in 1992 with a review of the literature, which was revised for the Fourth Pacific Islands Conference of Leaders held in Tahiti in 1993 (Pollard and Qalo 1993). The literature review confirmed the work of Belshaw (1964) and Fisk and Honeybone (1971) in Fiji, Carroll (1988) in the Marshall Islands, Ritterbush (1988) in Tonga, Finney (1973), Salisbury (1970), and Epstein (1968) in Papua New Guinea, among many others, who all testify to the extensive successful entrepreneurship in the Pacific both in the past and today.

Successful enterprise creates greater well-being and helps to sustain development. A thriving small enterprise sector is an essential component in the pursuit of "sustainable development," creating jobs that can retain those who want paid work and the wealth that is required for redistribution to support increasing demands for greater well-being. Successful enterprise also spins-off much of the additional economic activity needed for a growing economy.

Indigenous enterprise could contribute more to the economies of the Pacific in terms of employment, incomes, commerce, and trade. Pacific economies such as the Cook Islands, Fiji, and Tonga demonstrate the potential contribution of domestic enterprise. The countries of Asia, the Americas, and Europe also illustrate the potential contributions of the private sector. However, Pacific indigenous enterprises are limited by size, industry, and location.

The literature documents the origins and establishment of indigenous enterprise, but little is said about the factors, parameters, practices, and policies that sustain successful indigenous enterprise; especially how small enterprises can succeed within the cultures of the Pacific islands where a strong traditional commitment to reciprocity and sharing, and lineage or hierarchy, or other cultural authority may conflict with commercial needs of business.

The Pollard and Qalo paper also suggested that additional re-ordering of the economies of the region may be needed with a new set of government policies if successful indigenous small enterprise is to be supported. How much emphasis should be given to competition as against cooperation, to accumulation over distribution, to protection (on what terms) or laissez faire, to old and new forms of power. These contrary forces (which apply in all human societies but much more so in Pacific Islands' cultures than in those of Europe and Asia) frame a study of the culture of successful enterprise in Micronesia today and the compromises that must be reached in formulating government policy in support of indigenous enterprise development and economic growth. The essence of the research is--if we could better understand how indigenous enterprise succeeds within the diverse cultures of the Pacific then perhaps we could help less

successful enterprise and formulate better government policies in support of indigenous business.

The Pacific Islands Development Program (PIDP) of the East-West Center therefore proposed, and the Fourth Pacific Islands Conference of Leaders supported, a study of the cultural and social setting of small indigenous enterprise and the factors that support or frustrate its development with a view to assisting in the formulation of new government policies in support of indigenous enterprise.

The limited number of previous studies of small enterprise policies and practices, which is known as "business culture" in the United States, presented PIDP with a wide range of areas of enquiry. A pilot study was first undertaken to examine a range of issues but concentrated on a few enterprises in the urban centers of the Federated States of Micronesia and the Republic of the Marshall Islands. The fieldwork was carried out in late 1993 and the findings and theoretical implications published in 1994.

I argue (1994) that Micronesian enterprises are confronted by a very difficult resource cost, price, and credit regime. Micronesian cultures are strong and the community may resist change. At the micro-level, commerce must accommodate both small business and traditional transactions. A delicate balance between profit maximization and community sharing must be resolved. I also argue (1994) that traditional social transactions are a vital component of market behavior.

A portion of the profits derived from individual enterprise activity may be received by the greater community in the form of donations, low cost credit, or price discounts. In addition, the community that supports the enterprise by recognizing its use of land, by providing labor, and by purchasing the enterprise's goods and services may also expect a share of the profits. In a Micronesian cultural setting the unequal profits of business may be subject to the more egalitarian expectations of the community. Herein lies what could be a continuing source of misunderstanding between the greater community and the indigenous entrepreneur.

In formulating an explanation of Micronesian enterprise management, traditional profit maximization theory could have greater application where the business is viewed as an entity that serves the greater community rather than as an entity that strictly serves the objectives of the enterprise owner. However, the essential assumptions for profit maximization are complete certainty and full information and also perfect competition, and these assumptions are greatly impaired by the dependence on externally sourced inputs and the imperfect supplies of land, finance, and skilled labor.

Alternative theories of the firm that have been developed to help explain management and business decision making under uncertainty may apply in Micronesia. The policies and practices of the pilot study on Micronesian enterprises were found to have some strong parallels with their corporate counterparts in the United States. My 1994 paper argues that Micronesia's small enterprises succeed by adopting firm but appropriate and

adaptive business policies with regard to customary payments, personnel loans, and customer credit. Such policies allow indigenous enterprise to protect essential cash flow. I also argued that successful Micronesian business policy aims to reconcile the interests of the consumer, employee, and shareholder with the interests of business, much as enterprises in the United States do. Just like their U.S. counterparts, Micronesian enterprises must reconcile the interests of the greater community with those of business. There is, however, a major difference of degree. The more successful enterprises appear to have reconciled and accommodated the demands of commerce and community of competition and cooperation.

My 1994 paper helped to narrow the field of enquiry, and the results were sufficiently informative and indicative of indigenous enterprise policy to warrant more systematic study. A detailed survey of indigenous Micronesian enterprise and the community was therefore conducted in the urban area of Koror, Republic of Palau, in July 1994. Thirty successful indigenous enterprises were randomly sampled. Twenty consumers/employees and five community leaders were also sampled in order to compare and contrast business policies and practices as they are perceived and declared by enterprise owners and as they are perceived by consumers, employees, and community leaders, i.e., their "business constituencies."

Present economy, future excess?

On October 1, 1994 the Republic of Palau became the world's newest independent state. Under the somewhat controversial Compact of Free Association with the United States, which became effective at independence, the government of Palau (population of 15,000) will receive US\$517 million from the government of the United States over the next 15 years, with US\$190 million paid immediately.¹

Palau is a constitutional republic consisting of a national government and 16 subsidiary state governments that are also traditional hereditary groupings. The national government follows the U.S. model in having three branches that are separate and equal: executive, legislative (consisting of two houses), and judiciary. The electorate of Palau elects a President, a Vice President, and two legislative chambers with 30 members. The previous U.S. administration built up a multilayered system of governance employing 1,268 or 31 percent of the formal labor force.

According to Sagric International the Palau economy has advanced unevenly over the past decade. "High levels of consumption persist while local private investment has stalled at low levels" (1994: 23). The draft plan states that Palau has not suffered from capital, human resource, or natural resources development constraints. The economy has experienced strong public investment. Unlike some other Pacific island economies, Palau is not distant from major markets, and Palauans have unrestricted access to the United States, including access to preferential trade arrangements without extending reciprocal rights, and access to the U.S. labor market. The Palau economy has underdeveloped

potential in the sectors of tourism, garment manufacture, and fisheries. However, as Sagric states: "In sum, few countries have such advantages and opportunities. Yet the economy has achieved little real economic growth per capita; considerable conflict and instability remain over cultural and political issues; concern is mounting over environmental degradation; and Palau has been unable to prevent large numbers of its citizens from emigrating" (1994: 23).

The government of Palau is therefore confronted with the challenge to create a new economy under Palau's Compact with the United States where the public sector not only defends continued public interest but also aids a restructuring of the economy, serving the growing social and material needs of both community and enterprise. But, to what extent will the economic potential of Compact Palau be commandeered by the traditional and existing leaders of society and business or be open to new domestic and foreign commerce? Traditional Micronesian power structures have protected themselves from emerging domestic private sector interests as well as from potential foreign investors. Private domestic and foreign commerce have created much of the wealth in the rest of the world. Can the indigenous Palauan private sector capture economic gain from its own tourism, garment manufacture, and fisheries industries?

The poor economic performances of both the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) over the past eight years under very similar Compacts of Free Association with the United States question whether the economy of Palau can prosper under a similar arrangement. Compact funds have been used to expand government and greater public sector activity in both the FSM and the RMI but according to Browne (1995), real annual growth in GDP has declined for both the FSM and the RMI over the period 1986 to 1994, overall budgetary balance has also weakened, current account deficits have worsened or been maintained, official international reserves have fallen, and external debt has increased for these same countries.

An adaptive society?

Roland and Mary Anne Force (1972) describe an early 18th century Palau where the greater interests and workings of society were reinforced by complex and comprehensive traditional kinship alliances in the form of "clubs." Villages were divided into two halves, either side of an existing or imaginary water channel, and the population was divided into two parallel sets of age-grade male and female clubs. Relocations of people and other adjustments to the divisions would be agreed to maintain an overall balance. The divisions were apparently designed to both compete with and to complement each other.

Successive Spanish, German, Japanese, and U.S. colonial rules caused these earlier forms of social organization to disintegrate. According to the Forces (1972), Spanish and, then more forcibly, German colonizers enforced the removal of men's houses and clubs and the practice of women "attendants." The Japanese invested heavily in Palau creating a vibrant and enterprising colony. This investment was erased by U.S. military forces

following the U.S. capture of the islands during World War II. The subsequent U.S. rule introduced American social and political concepts and systems and enhanced material expectations. All prior foreign rules had a cumulative effect of introducing foreign forms of legitimacy and control, and Palauan culture was changed both by force and by gradual adaptation and attraction.

The Forces comment on the continuing conflict between the traditional, chiefly legitimacy and the modern administrative and legal systems. "The portents of a Western-oriented public education system, Christianity, a wage economy, non-Palauan house-styles, introduced legal and political codes, and the values which all these developments incorporate augur badly for the protracted survival of certain intrinsic features of Palauan culture--despite a decided tendency toward retention. Kinship practices are likely to change apace, along the lines of those which have already made their appearance" (1972:113).

However, as the Forces also record, "Palauans are a pragmatic people. They perceived that to adhere rigidly to earlier membership rules would result in the death of some kin groups--an eventuality without profit" (1972:48). This pragmatism is most apparent in response to an undermining of the rationale for kinship linkages that resulted from the tremendous population losses after early contact with foreign peoples starting in the late 18th century. The rules of kin association and inheritance became increasingly flexible in response to this population loss. "The primary concern lies in the unification of surviving persons into new alliances" (1972:48).

New economic and social trends confront Palau today. According to the 1990 Census of Population and Housing, 15,122 persons were resident in Palau and some 471 Palauans or 7.8 percent of the civilian labor force were unemployed. However, the Labor Division of the Ministry of Commerce and Trade, also records 5,201 alien workers registered in Palau in October 1994 and Sagric (1994:61) reports 4,000 Palauans working abroad. While some Palauans remain unemployed and others intend to emigrate, the economy now relies heavily on immigrant labor, which Palau needs to supplement its own skills and technology and to introduce new ideas, approaches, and social mediation. Earlier colonial regimes established some of the social and economic bases for the import and export of labor. Under Japanese rule Okinawan and Korean labor was imported; and under U.S. rule increasing numbers of Palauans were educated abroad and Filipinos imported. Today the extent of migration continues to challenge society's ability to adapt.

With government employees receiving a 10 percent pay increase at independence and an expansion of the government encouraged by new Compact expenditures, the private sector is encouraged to continue to provide for the leading public sector. Current land and labor pricing policy, fiscal policy (tuna and billfish export tax) and the prevailing economic structure may also discourage new, alternative, indigenous, and sustainable private economic activity in fisheries, garment manufacture, and tourism. Demographic trends will likely be reinforced as Palauans prefer government to private sector

employment. Any further expansion of the public sector may, however, only be sustained as long as Compact funds last, much as the FSM and the RMI have experienced.

Palau's adjustment to the new Compact-induced social and economic order will also depend on who gains and who loses. As the Forces comment with respect to changes in social structure: "The greatest resistance to change in theory and practice will be found among members of high-ranking families as has been true in the past. It is they who have had and will have the greatest to gain by the perpetuation of old cultural patterns" (1972:127). While opportunities for enterprise may arise from Compact-generated public activity and while labor immigration may also serve new enterprise, these interests may, or may not, be shared by some of the high ranking families.

According to Sagric (1994:25) the "dominance of personal factors over institutional practices has enabled personal, clan and State jealousy and rivalry to flourish. The plan further concludes (1994:29) that cultural factors, coupled with the distortion of incentive structures from high levels of U.S. assistance, have resulted in:

- discretionary policies and inward-looking strategies such as in the case of tax and foreign investment concessions and approvals,
- lack of concern over the effectiveness of and compliance with national policies,
- political instability and politicization of economic policymaking and implementation,
- low returns on public investment,
- low levels of private sector investment, and
- substantial distortions to the labor market.²

Palau's earlier systems and rules of governance and association may have been appropriate for a relatively isolated and largely self-reliant community, but the same social systems would likely not work well for Palau today where an increasingly interdependent world places ever greater emphasis on economic transactions over those of a more social and political nature. Palau society has previously adapted to demographic change and to successive foreign rule. But even greater social change will be required if the new international order is to be employed to the benefit of Palau and if Palau is to therefore achieve higher levels of national well-being over the long-term.

Enterprise and money--old and new

Enterprise is certainly not new to Palauans. As the Forces comment, "The presence of a native money system made Palauan culture different from that of many other Pacific islands. Anthropologists do not always define native currency as money; it may have only a symbolic meaning and not the usages and values associated with real currency. But the native money of Palau was manipulated in such a manner as to make the use of more modern moneys--German marks, Japanese yen, and American dollars--quite compatible" (1972:125). Palauans reportedly embraced the new commercial world created by the Japanese in the 1930s, and indigenous business is even more evident today. Palauans are

not only comfortable with the forces of competition but also they have long embraced an economy that incorporates monetary transactions.

Gatherings for purposes of securing contributions of money continue to regularly occur, for events from house-buying to death and marriage settlements. The Forces suggest that further evidence of social adaptation is provided in that: "Such gatherings have for some years now been practically scheduled immediately following payday to take advantage of the earnings of young employed individuals who are obliged under the system to provide the bulk of the contributions. A new practice has been innovated which is entirely practical. Because virtually all of the relatively young, employed individuals whose participation is so essential, live and work in Koror, exchange gatherings are not always scheduled to correspond with paydays, but at times their venue has been transferred from the village or municipality in which they normally would have taken place to Koror, thereby rendering it easier for the crucial participants to attend" (1972:126-127). Modern Palauan society can accommodate new sources of wealth.

The use of money could, however, at least historically, extend beyond what might be considered as typical modern business transactions. Again the Forces comment, "The pursuit of money precipitated murder and warfare; it allowed for the maintenance of a relatively closed stratified society; and it meant that an individual could atone for almost any behavioral aberration--if he could afford a fine" (1972:124). In today's society where traditional, chiefly legitimacy remains in some conflict with introduced administrative and legal systems, what are the implications for modern international business transactions of even the remnants of "a relatively closed stratified society" where individual "aberrations" could be canceled by payment of a fine? As elsewhere in Micronesia,³ modern commercial codes and practice may exist in law, but if enforcement is lacking then **legitimate** investment, both domestic and foreign, is deterred.

As Sagric comments, "the costs of confrontation can be substantial in a small society, and the withholding of consent by interested parties against the will of the majority is accepted practice. Interpersonal relationships dominate the social system and decision making is protracted, leading to an over-emphasis on distribution rather than the acceptance of some inequities that accompany an increase in the overall level of national welfare (Draft National Master Development Plan, 1994:25). This type of competition does not translate into a vibrant private sector."

Despite traditional concerns over distribution, the indigenous private sector of Palau has grown.⁴ The indigenous private sector consists of some surplus primary production, tourism, construction, manufacturing and processing, transportation, wholesale and retail, personal services, and business services. Levels of indigenous ownership and total employment for each industry are not known, but according to the 1990 Census of Population and Housing, of 5,599 employed persons aged 16 years and over, 3,198 or 57 percent were employed in the private sector. The construction industry's status as a relatively large employer has been sustained by continued government and private construction work. In 1994 there were ten establishments involved in bakeries, garments,

building materials, furniture, and handicrafts. There were 15 tour operators, guides and commercial boat operators. According to Sagric (1994:198), "There are 300 wholesale or retail establishments, most of them being family stores, which is a ratio of one store per 50 residents."

The enterprise survey

Three separate surveys were undertaken in 1994: a sample survey of enterprises, a survey of consumers/employees, and a selected survey of community leaders. The main survey was that of enterprises. Data from the other two surveys helped to verify the results of the main survey.

A detailed, systematic survey of 30 randomly sampled successful indigenous business enterprises was based on the 1994 list of licensed business establishments held by the Department of Taxation. Preliminary work was necessary to combine establishments and to weed out those enterprises that were considered to be either too large or temporarily licensed to construct a house or other building; to eliminate those enterprises that had been only recently established or those no longer operating; and to eliminate enterprises known to be a "front" for the commercial interests of foreign nationals.

The 1994 Palau survey compares and contrasts the business policies and practices as perceived and declared by their business enterprise owners, with the same perceptions of employees/consumers, and the leaders of the Palauan community. Separate survey instruments were prepared and administered for each of these "business constituencies." A total of 20 employees/consumers were sampled at random, and five representative community leaders were selected for interview. The surveys were conducted in the urban area of Koror where the majority of today's population lives, works, and transacts business. A few additional interviews were also conducted outside of Koror for comparison.

The United Nations' definitions of business enterprise and business establishment were employed.⁵ "Success" was also, as previously (Pollard and Qalo 1993), ascribed according to years in business, the number of people employed, and the size of turnover. Of all the 30 sampled business enterprises, the oldest has been in operation for 44 years, seven have been in operation only since 1990, while 21 have operated since 1980. Only one of the enterprises has not been in uninterrupted continuous operation since it commenced, and all of the enterprises operated throughout 1993. Employees per enterprise range from 0 to 31 with an average number employed of seven. Total enterprise receipts for the period 1 October 1992 through to 30 September 1993 ranged from US\$4,610 to \$1,841,918 and averaged US\$218,503. One-half of the enterprises recorded total receipts of US\$50,000 or less, 17 recorded total receipts of under US\$100,000. Seventeen enterprises had total receipts of over US\$200,000 and three recorded no receipts for 1992-1993. Most, 19 of the 30, sampled enterprises considered that their operations regularly made a profit.

As to be expected, the majority of enterprises are tertiary, service sector operations with receipts earned from the resale of products and services. Only four enterprises recorded no such receipts. Receipts from the resale of products and services ranged from US\$3,750 to \$1.8 million.⁶ One-half of the sampled enterprises have their principal establishment as retail operations, three are primarily engaged in construction, two in tourism, four in other services, two are house and space rentals, one is a law practice, two are bakeries, and one is a manufacturing business. Two-thirds of the enterprises have more than one establishment; in seven cases this is a house and space rental, in six cases it is wholesale trade, in four cases tourism, and in the other cases subsidiary businesses are either manufacture (2), retail (1), construction (2), or other services (3). Nearly all, 28 of the 30 enterprises, are also fully locally owned. The range of establishments is considered a fair reflection of the nature of indigenous business in Palau today. Enterprise expenditure on items other than the purchase of goods for resale was generally of lesser importance leading to little value added within the economy.⁷

When asked how they sustained profitability, 19 of the 30 enterprise owners commented that they did so by reducing or containing costs, nine by increasing or sustaining prices, 16 through increasing productivity, and 11 through enhancing goodwill. Only two commented that profitability could be sustained through regularly upgrading and maintaining assets, and one through advertisement and product diversification and price reduction. Given the type of business activity where imported products and materials are common and price competition is intense, it is not surprising that profitability should be primarily sustained through cost containment and general improvements in productivity.

Enterprise goals

The goals of enterprise will govern enterprise management policies and practices. These goals are also influenced by the relationship between enterprise owners and their family, employees, consumers, and the community. When asked why they originally established an enterprise, the reason of highest priority for 14 out of the 30 enterprise owners was to achieve a predetermined level of cash income or to maximize income, profits, turnover, or some other cash horizon, or to be independent--to be "one's own boss." The highest priority for five of the enterprises was to pursue an interest or an untapped opportunity for making money. Alternatively, eight respondents established an enterprise in order to secure a regular source of income for family members or to provide employment for underemployed or unemployed family members. According to the respondents, one in four owners entered business for political reasons or to support the community.

Irrespective of priority, 70 percent of respondents answered that their goal was "to secure a regular source of income," 80 percent "to achieve a predetermined level of cash income," only 27 percent "to help secure political support, or to reciprocate with and provide a service to and to otherwise support the greater community," and 23 percent "to

pursue an interest or untapped opportunities for making money.” While a larger number of enterprise owners could therefore be described as self-motivated or profit-motivated, this tendency is tempered by a commitment to family and community.

When asked what are the owners’ major business goals now, the major priority goal for 18 of the 30 enterprise owners was to achieve a predetermined level of cash income for particular expenditure purposes, or to maximize earnings, or to be independent and “one’s own boss.” Many, 21, also ranked the need to secure a regular source of income for family members or to provide employment for underemployed or unemployed family members. Cash horizons remain important enterprise goals once enterprises are up and running, but again the needs of the family also influence the directions of business.

Although the owners of enterprises may be, at least partly, motivated by family and community needs, to what extent do the family and the community understand and support the goals of enterprise? Most, 23 of the 30 sampled enterprise owners, commented that their employees understand and commit to the objectives of the enterprise, and only five commented that their employees do not understand the enterprise’s objectives. Nineteen of the 30 owners also reported that “the community understands and commits to the objectives of the enterprise.” Eight reported that they do not understand and three offered no opinion.

Four of the 30 also commented that the community perceives enterprises as real profit makers expecting them to make generous contributions to the community. At least as far as the successful enterprise owners are concerned, their employees, family, and the community generally understand and support enterprise, a commitment that is probably a historical one in Palau and to an extent one that is not necessarily shared to the same degree by some other countries in the region.

Enterprises and the family

According to the Forces, "Kinship governed the inheritance of wealth in Palau. The things of great value--bead-money and land--were owned by the maternal consanguineal kin group" and "The senior males of a sib stood in the position of trustees to an estate. Although the highest-ranking chief in a sib was the acknowledged leader, the use or disposition of items of wealth often were decisions which required the consensus of kinsmen" (1972:53). It should also be noted that although males predominate in official positions in government and in business, the women of Palau can, and do, organize if they wish to voice opposition. The family, both male and female, traditionally played an important role in the distribution of wealth.

Today’s Palauan enterprises commonly employ family members. Sixteen of the sampled enterprise owners responded that family members and relatives generally expect to be employed by the enterprise. But such expectations of employment may be countered by the expectations or needs of business. Almost one-half of the owners also commented

either that relatives are employed based on their merits or that, generally, only family members who could perform are employed. The Forces state that "Sibling responsibility is unquestionably a major feature of kinship in Palau" (1972:96). However, such responsibilities apply not only from the enterprise to the family but also to the enterprise from the family. Over one-third of the 30 enterprises were reported to be regularly subsidized from family members' salaries or remittances. Thus a close mutual relationship can exist between the enterprise and the family, and family members may gain status in the family by succeeding in business and through accumulating wealth through this success.

Most of the sampled employees (16 out of 20) were related to the owners of the enterprise where they were employed, and 12 shared in some of the decisions made concerning the enterprise.⁸ Consulting family employees with regard to some business decisions may support successful operations. Family employees therefore contribute much more than their labor to the family enterprise.

Seventeen of the 30 enterprises were reported by the owners to be solely directed by the owners of the enterprises. In 13 cases the enterprise decision maker is a person different from the owner. However, in the case of 23 of the 30 sampled enterprises, the owner decided on key business decisions such as capital purchases and additional investments, any credit offered to customers, the pricing of output, and the hiring and firing of employees. In six of the 30 cases the enterprise accountant decided on these matters. Whether a member of the family, or an employee, or the company's accountant, someone other than the owner of the enterprise is commonly trusted to assist in enterprise decision making. The delegation, or at least the sharing, of enterprise decision making would therefore appear to be important to successful business operations.

Enterprises and employees

The 30 sampled enterprises employed a total of 221 workers. Employees per sampled enterprise ranged from 0 to 31 with an average number employed of seven.⁹ Although per enterprise employment varies, indigenous enterprises as a group are significant employers. The 1990 Census of Population and Housing recorded that 2,418 or 60 percent of the total of 3,985 employed persons aged 16 years and over in Koror were working for the private sector.

Five of the sampled enterprises employed professional and technical persons, four employed administrative and technical staff, seven employed clerical staff, two employed sales workers, five employed service workers, two employed primary production workers, and nine employed production and transport workers and laborers. Although the enterprise sector of Palau is primarily made up of service and construction industries, the range of employment is quite varied.

Sixteen of the 30 sampled enterprises employed non-Palauans, and 139 or 63 percent of the total of the sampled enterprises and employees are non-Palauans. Just over one

hundred or 49 percent were female. Of these foreign workers the majority, 72, were employed as lower skilled production and transport workers and laborers, and 37 were employed as service workers. Palauan indigenous enterprise would probably not be as extensive as it is today without imported labor. The relatively extensive employment of, often low skilled, foreign labor reflects both the availability of comparatively well remunerated government appointments for Palauan nationals and the relatively high level of remuneration now expected by Palauans, with some Palauans possibly preferring to register as unemployed rather than accept less skilled employment.

The Palauan labor force is comparatively well educated with the 1990 Census of Population and Housing recording that 72.5 percent of the labor force has achieved a high school graduate or higher educational status. While the private economy needs low cost, low skilled labor, the Palauan society also demands the creation of skilled positions for Palauans, which presents quite a challenge for domestic industrial policy.

The sampled enterprise owners generally considered that they paid their employees a competitive wage, at least when wages are compared with their direct competitors. Of the 25 enterprises that responded to the particular questioning and that also employed workers and regularly paid wages, 12 or 48 percent stated that they paid wages that are higher than their competitors; 11 or 44 percent paid wages that are about the same. These same enterprises were, however, aware that their wage levels were generally lower than government wages. Of the enterprises that responded, 65 percent paid wage rates that were lower than government wages, and 27 percent said they paid higher wages. The same responses were given to a comparison of the sampled enterprise' wage rates with the wage rates of semi-autonomous enterprises. According to Sagric (1994:198), the Palau private sector hourly wage rate is US\$1.75, which compares with a government entry level hourly wage rate of US\$2.74 and an hourly wage rate in Guam of US\$4.50. Unfortunately, the Palauan economy is not yet at a level where its private sector can afford the remuneration levels expected in government and enjoyed in Guam.

The employees that were sampled did not agree with the wage comparisons as perceived by enterprise owners. Asked to compare their wages with wage rates of other competitor enterprises, of the 19 employees who replied, seven or 37 percent said that wages in other competitor enterprises were higher, five that they were lower, five about the same, and two did not know. When asked to compare their wages with wage rates of government employment, of the 19 who replied, seven said the wages in government were higher, ten that they were lower, one about the same, and one did not know.

A similar set of opinions was apparent with regard to non-wage benefits. Of the 20 sampled enterprises where a comparison of non-wage benefits was considered applicable, 12 or 60 percent considered that the non-wage benefits that they paid were about the same as their competitors, 7 or 35 percent responded that they paid higher non-wage benefits, and only one considered its non-wage benefits to be lower. However, when considered in comparison with government, 58 percent of applicable enterprise respondents considered their payment of non-wage benefits to be lower than government, five responded that

payment was about the same, and three considered their non-wage remuneration to be higher. Comparisons with semi-autonomous enterprises were again similar to the comparisons with government.

Again employees offered a slightly different opinion. When asked to compare their non-wage benefits with those of other competitor enterprises, of the nine who replied, one said the benefits in other competitor enterprises were higher, two that they were lower, five about the same, and one did not know. When asked to compare their non-wage benefits with those of government employment, of the nine who replied, two said the benefits in government were higher, five that they were lower, and two about the same. The results of comparisons with semi-autonomous enterprises were similar to those comparisons with government.

The discrepancy between owners and employees over the interpretation of comparative wage levels and total remuneration is not clear. The difference of opinion may be due to differences in remuneration between Palauan family employees, non-family employees, and immigrant remuneration. The difference of opinion may also reflect differing interpretations with regard to unpaid hours of work and payment in kind.

Sixteen of the 30 sampled enterprises, or 53 percent, responded that they could attract good workers at the level of wages that they paid, and six or 20 percent felt they could not. Of the 18 enterprise owners that replied, nine recorded that their employees contributed hours of work that were not paid for. Of the 21 respondents that replied to the question, 11 also recorded that they provided in-kind, non-cash payment to their employees. Whether paid in cash or kind, not all successful enterprises remunerated their employees at a level comparable with that of government, indicating acceptance by some employees of remuneration at levels lower than those of government.

Of the 26 enterprises whose wage levels had changed over the life of the enterprise, 10 or 38 percent responded that the main reason why wage levels had altered was in response to good or bad business. Nine, or 35 percent, commented that wages had primarily altered in response to productivity, three or 11.5 percent in response to the cost of living, two to retain employees, and one each as a result of a fixed annual increment and an employee welfare-based adjustment. Irrespective of priority ranking, one-half of the enterprises commented that wages had altered in response to good or bad business, 73 percent in response to productivity, and seven in response to cost of living. Thirty-eight percent commented that wages had changed in order to retain employees. The setting of wage levels by successful enterprises is therefore primarily a function of profit and performance.

If the 12 sampled enterprises that declared they paid higher wages than their competitors are compared with those 11 that declared they paid wages at about the same level as their competitors, the former had not been in business as long, with an average start-up year of 1985 compared with 1977. The "higher payers" also employed fewer people (an average of seven as opposed to ten people employed), but they recorded a

much higher average level of gross revenue for 1992-93 (US\$282,531 as opposed to \$132,808) and a much higher level of revenue declared for taxation in 1993.

Nineteen of the 30 sampled enterprises or almost two-thirds provided either loans and/or advances to their employees, and almost half of the interviewed employees had received either a loan and/or an advance from their employers. Most employees also commented that they always obtained the loan and/or advance as and when requested. It is important to note, however, that 12 of the 19 enterprises that provided loans and/or advances to employees stated that they had extended 5 percent or less of their present monthly gross receipts in the form of loans and/or advances. Seventeen of the 19 enterprises had similarly extended 15 percent or less of their present monthly gross receipts. Of the 21 sampled enterprises to whom the question was considered to be relevant, only three or 14 percent considered employee loans and advances to be a great hindrance to cash flow, nine considered such provisions to be of little hindrance, and another nine of no hindrance. Although most enterprises provided loans and/or advances to their employees, they obviously contained the amounts provided to protect business interests. Within the sample, those enterprises that declared that loans and advances extended to employees greatly hindered cash flow tended to have been longer in business but to have employed a fewer number of employees and to have recorded a much lower gross revenue in 1993.

Of the 22 sampled owners who responded, six or 27 percent considered that loans and advances varied primarily in response to the urgency of need and another six in response to productivity, four in response to profitability, and four according to the earning capacity of the employee. Regardless of ranking of reason, 13 or 59 percent extended loans and advances in response to productivity, or the needs of enterprise, and eight or 36 percent in response to the needs of the employees. Whatever the reasons for extending loans and advances, and whether these reasons favor enterprise or employees, it is interesting to note that owners are commonly prepared to provide such assistance to their employees.

Enterprises and consumers

Nearly all, 27 of the 30 enterprises, sold their products and services in the immediate urban area, 22 sold island-wide, and only six marketed overseas. Again, nearly all, 26 of the 30, targeted particular customers, 11 of these targeted the domestic market, six targeted villagers and clan members, seven neighbors, and six tourists. Palauan enterprise is dominated by the immediate domestic market, but there is a record of some selective marketing.

When asked whether the consumer preferred to purchase his or her goods and services from a particular establishment, 12 of the 20 surveyed consumers replied that they did. Just over one-half, or 11, of the 20 respondents commented that obtaining better prices was their main reason for preferring a particular establishment, four recorded this reason

as their second priority, and two as third priority. Only one respondent considered better credit terms as a priority reason for selecting establishments (probably, as below, because Palau consumers can obtain competitive credit terms at most establishments). Regardless of priority, 15 considered better products and services as a major reason for selecting an establishment. Eight consumers preferred establishments with a more convenient location, although this was of lower priority when selecting establishments. Only three respondents cited family or other personal commitments or obligations as a reason for selecting establishments and this objective was of lower priority. Three commented that they selected establishments that had new or a variety of products, and this reasoning was generally of lower priority.

The personal image of the owner might be expected to influence consumption, and when asked whether the image of enterprise owners reflected on the goodwill of the enterprise, five of the sampled consumers replied yes in all cases, eight replied yes in some cases, five replied no, and two commented that customers do not know the owners. While owner-image may reflect on goodwill in many enterprises, this is not always the case.

According to the Forces, the kin associations and alliances were still important when they reported on their studies in the 1970s and these alliances affected all personal transactions including commerce. However, in the 1990s better prices, better products, and better services appear to be more important to the Palauan consumer than convenience and kin connections. Of the 20 consumer/employees interviewed, one-half were aged in their 20s.¹⁰ Eight were male and 12 female. Three-quarters had completed high school and one was a college graduate. This level of education is supported by the 1990 Census of Population and Housing, which records that almost two-thirds of persons located in the urban area and aged 25 years and over had achieved high school graduate status or higher. The Palauan consumer may therefore be considered as relatively urban and well educated. The same consumer is also more likely to have been exposed to travel and to modern advertising and therefore to be more discerning with regard to consumption preferences.

Most, 24 of the 30 sampled enterprises, or 80 percent, declared that they provided credit to their customers. However, only eight of the 24 sampled enterprises that provided credit added interest or any other charge to customer credit, and of these eight, six charged interest of 5 percent or less. Consumer credit can therefore be assumed to be both extensive and highly competitive in Palau.

A little over one-third of those enterprises providing customer credit extended credit to a level of 15 percent or less of monthly gross receipts.¹¹ Of the 26 sampled enterprises that considered the question to be applicable, 14 or 54 percent considered that the level of customer credit greatly hindered cash flow; five or 19 percent considered that the level of customer credit little hindered cash flow; and seven or 27 percent considered the influence to be unnoticeable. It is interesting to note that, within the sample, the enterprises declaring that credit greatly hindered cash flow tended to have been in business longer than the other sampled enterprises and to have recorded much lower levels of gross

revenue in fiscal 1993. The level of employment did not differ between the different credit categories of enterprises.

It would appear that because of the generally competitive and extensive nature of Palauan enterprise, most enterprises provide customer credit, which can present a problem to cash flow. Eighteen of the 24 sampled enterprises that provided credit considered the level of customer credit to vary. Of the 18, ten or 56 percent stated that the level of customer credit varied in response to profitability, ten in response to productivity, six in response to cost of living, and seven in response to customer needs and ability to repay. The level of credit therefore primarily varies in response to business rather than customer needs.

Only five of the interviewed consumers declared that they received credit from the stores and business establishments they frequented. In only one of the five cases was interest charged, in no case was any other charge levied. In three cases delayed payment was allowed, and in one case the respondent specifically stated he opened a 30 day account. Although credit terms may be competitive and comparatively low cost, from the consumers' point of view it does not appear to be as extensive as enterprise owners and community leaders state. Consumers may alternatively attach some stigma to acknowledging their dependence on consumer credit.

When asked how the enterprises decided what prices to set for most of their goods and services, all 30 responded that prices were set in relation to material input costs, and most, or 87 percent, considered this to be the primary factor. Nineteen, or 63 percent, also considered competitors' prices when setting the prices of their own enterprises. Only six or 20 percent considered credit terms, and only four or 13 percent considered employees' salaries and other labor costs. Cost-plus pricing based on material inputs may well be the norm because most enterprises are services and these inputs are the major cost component. Indeed the sample enterprises' greatest expenditures were the purchase of goods for resale. Just over two-thirds of the 30 enterprises purchased goods for resale incurring expenditures averaging US\$1 16,176 or almost 40 percent of the average annual total expenditure of \$293,857 for all 30 enterprises.

Most, that is, 19 of the 30 enterprises offered price discounts. Of these 19, just over one-half offered price discounts in relation to the earning capacity and credit status of the customer, six offered discounts for cash or large volume purchases, and only three offered discounts where the goods and services are considered community purchases. Only two offered price discounts in response to competition. Just as the consumer may shop in deference to household economy rather than kin commitment, so the enterprise owner may offer price discounts in relation to risk of repayment and size of purchase rather than kin commitment. There was little difference between the group of enterprises that offered price discounts and those that did not in terms of years in business, number of employees, and gross revenue.

The consumers were interviewed at length as to their opinions of the fairness of prices charged by local enterprises, the service quality provided, and the social acceptability of business operations for a wide variety of different kinds of enterprise. While the sampled consumer commonly responded to these questions, the responses varied, revealing no clear pattern of opinions.

Enterprises and the community

Palauan enterprise needs the support of its general community, beyond the family, consumers, and employees. This support is all the more important given the competitive nature of enterprise in Palau including the competitive nature of consumer credit and the predominant dependency of enterprise on the small domestic market.

The community may influence both the form and extent of enterprise, although according to the Forces, "The values which make for success in contemporary Palauan culture are no longer always ones oriented toward the group, as was true in the past. However, success as a part of group activity is potentially possible today. Some enterprise activities such as commercial fishing, import-export operations, construction activities, and so on, are proving profitable as group enterprises" (1972:125). Group enterprises are still active in 1994 in the form of the Palau Fishermen's Cooperative, the West Trading Corporation, and the *Modekngai*. The *Modekngai* (literally to reunite) religion has supported cooperative business efforts. *Modekngai* followers tend to be abstemious, reserved, and dedicated to principles of the past. The movement was strengthened in the 1960s and 1970s, and in Koror they maintain a large congregation supporting a cooperative store.

The *Modekngai* movement and other group enterprise activity are not, however, typical of Palauan enterprise today. Twenty-seven of the 30 sampled successful enterprises are sole proprietors and the other three are corporations. Any possible decline in the importance of group effort and communal tenure does not, however, mean that the greater community has lost influence over business. Nearly all, 28 of the 30 enterprises, some 93 percent, made financial or in-kind contributions to the community over the 12 months preceding the interviews. Just over one-half, 15 of the 28 contributors, made "contributions" to private and quasi-government and cultural institutions including religious bodies. Eighteen enterprises made contributions to family and clan, 18 to schools and other community organizations, and eight to traditional leaders and political parties. One-half of the enterprises providing contributions to the community made payments to social clubs, and six to government including educational institutions. Nearly all the sample therefore contributes to the community in one form or another. Enterprises commented that it is "common for the recipients of their contributions to receive contributions from business."

According to the Forces, kinship groupings also allow individuals to trace their heritage and inheritance through a number of alternative lines, and such complex

inheritance allows some individuals to claim political advantage today. Nearly one-third (9 of the 30) of the sampled enterprise owners are also traditional or political leaders. However, of the nine enterprise owners and leaders, four felt that this status had hindered the achievement of the objectives of the enterprise. Three of these four commented that such status meant that enterprise resources and time are channeled toward community services. Politics may provide a mixed blessing for enterprise. There was little difference in enterprise performance between those sampled enterprises owned by traditional or political leaders and those enterprises whose owners are not leaders other than in the case of average gross revenue, which appeared to be higher for those enterprises owned by politicians.

In no issue is the conflict between the modern and the old, and the personal and the communal, more apparent than in the case of land. The Forces state that: "Conflicts over inheritance in Palau are frequent today. A major problem in modern Palau has been the determination of land ownership. Persons holding high-ranking titles have at times taken liberties and improperly disposed of sib lands for their own personal gain" (1972:53). Although "Sib members had usufruct of sib land, they did not have title" (p.53). "The German and Japanese land surveys in Palau created precedents for individual ownership of land. Modern Palauans feel they have personal or individual rights to land and some of them attempt to break accepted inheritance patterns by passing land and other wealth directly to their children" (p.54). And "Of particular importance today is that the so-called historic right of land to pass through the maternal line is questioned more and more" (p.112).

New expectations, if not tenure, of land have also had to increasingly accommodate the needs of enterprise. The increasing concentration of Palau's population on the government and enterprise center of Koror, which commenced under Japanese rule, explains why only ten, or one-third, of the sampled enterprises are owned by persons who are from Koror. Also only one-third of the enterprises are also owned by persons whose parents are from Koror. In keeping with this concentration of economic activity, one-third of the sampled enterprises also pay rent. However, as Sagric comments, the lack of secure title to property, in particular, secure title to land and therefore the ability of indigenous enterprise to raise capital is possibly the greatest constraint on indigenous enterprise development in Palau today (1994:25-29).

Although very few of the sampled enterprises regarded the need to secure political or community support as important goals of business, some nevertheless considered such goals as of lower priority. Others also commented that a major goal of business was to meet customary obligations including basic family responsibilities. On the other hand, one-third of the enterprises commented that community contributions greatly influenced cash flow, 13 said that the contributions influenced cash flow only a little, and seven said this influence was unnoticeable. Those sampled enterprises declaring that the influence of community contributions on cash flow was unnoticeable recorded a slightly higher average level of revenue in fiscal 1993. They also tended to have commenced business more

recently than other enterprises (average of 1989 as opposed to the late 1970s for the other categories).

Community contributions may not be an important goal of enterprise, but they can be detrimental to cash flow and as with consumer credit and employee loans and advances, these contributions need to be controlled in the long-term interest of sustaining business. Nineteen of the 30 enterprises recorded unrecoverable bad debts as of 31 September 1993 ranging from US\$200 to \$120,000. Five of the 19 enterprises that had bad debts had debts of US\$20,000 or more. While the particular source of these bad debts was not ascertained they are believed to originate mostly from consumer credit.

The survey of community leaders was administered to a selected group of religious, political, and executive leaders. The sample size was only five, and these five people were asked to present the opinions of the community and not their own opinion. Of the sample, two were church leaders, two politicians, and three executive officials. Three of the five community leaders also currently own or have shares or other interest in an enterprise. When asked whether the community leaders had provided any help in any form to any individual enterprise, four of the five community leaders replied that they did. When asked what form this help took, one had provided land, and four provided other services such as lobbying, investigating regulations, and helping decide what to purchase.

None of the community leaders had provided finance. One-half of the sampled enterprises had, however, borrowed money between June 93 and July 94. Of the 15 that had borrowed, 13 borrowed from the Bank of Hawaii, one from the Bank of Guam, and one from another bank. No enterprise had borrowed from non-commercial or personal sources. One-third of the sampled enterprises recorded interest paid on loans in 1992-93 averaging US\$7,850. New capital expenditures or investment occurred for 14 of the 30 enterprises averaging US\$45,596 or 20 percent of the average total receipts of US\$218,503 in the same year. New investment by almost one-half of the sampled enterprises is a significant indication of a degree of confidence in the future Compact-supported economy.

According to all the community leaders interviewed, enterprises are expected to help the community. When asked what form of support is expected by the community from business, one replied employment, three products and services, one extended credit, three donations for feasts or other traditional festivities, and three other charitable donations. All community leaders also stated that the community preferred to purchase goods and services from particular establishments. The reasons given for preferential treatment of particular establishments by the community were better prices (three), better products or service (three), more convenient location (two), family or other personal commitments or obligations (one), and other reasons (one). In common with the responses of the consumers, better prices, products, and services are more important to the community than convenience and family ties.

When asked whether the image of enterprise owners reflects on the goodwill of the enterprise, four of the five respondents replied "yes" in all cases, and one replied "yes" in some cases. Owner image would appear to be more important to community leaders than to consumers--a response that might be expected given their status.

Four of the five community leaders agreed that the community gets credit from enterprise. One of the five replied that interest is usually charged, none replied that any "other" charge was levied, and three commented that delayed payment was the normal form of "credit." In commenting on the nature of customer credit, three mentioned that establishing a line of credit was usual, one referred to a practice of "lay away," two allowed customers to pay at the end of the month when they received their pay check, and two referred to the practice of *chocherael*.¹²

Asked whether members of the community usually obtained loans and/or advances of money from the enterprises where they work, three of the five community leaders replied that advances were usual, one replied both loans and advances, and one neither. When asked whether members of the community usually obtained loans and/or advances as and when requested, three replied that they did.

Conclusions

Palau has a history of transactions involving money and, more recently, enterprise. As the Forces state (1972: 125): "For centuries money has helped make the Palauan world go round and introduced currency serves no less a function." Deeken, an early 20th-century German writer, noted that "Greed for money is a prominent feature of the Palauan native, and is the driving force of almost all his actions" (1912:71). The Forces also note: "Values associated with money, its acquisition, and use are still very much present in Palau. By their industriousness a number of Palauans have become wealthy. In recent time Palauan businessmen have burgeoned in numbers" (1972: 125). Such values and trends are even more apparent in 1995. Traditional competition from within society is compounded by competition from without in modern enterprise.

To succeed, modern enterprise needs the understanding and cooperation of all its enterprise constituencies. The struggle between cooperation and competition and between the vested interests of the traditional and modern together fashion a changing set of values and expectations that greatly influence whether or not indigenous enterprise can survive and if so in what form. Modern society needs enterprise, and this enterprise needs the support of its constituents, but if these constituents succeed in demanding more immediate distributions of enterprise profits, cash flow will suffer and enterprises may not succeed.

Although the sample surveys revealed some differences in perspectives with regard to the relationships between enterprise and the enterprise constituencies of employee, customer, and community, the overall picture was quite consistent. The society has largely adapted to the new social order, and, in keeping with this adaptation, the

relationships between owners and constituents have also adapted. Employee, customer, and community remain important to modern Palauan enterprise. Successful enterprise practices accommodate their needs but only to a certain extent. Loans, advances, credit, price discounts, family employment, and “contributions” are common. They are more than token transactions, but as they can harm cash flow they are also contained. Wage levels are also primarily a function of profit and performance.

The extent to which payments and contributions are contained varies from enterprise to enterprise. Contained transactions are not necessarily subject to detailed calculation but rather appear to be more a matter of “rule of thumb” developed over time and responsive to rational criteria such as the availability of enterprise finance, productivity, and credit risk. These transactions consist of both commercial and social elements. They could be viewed as a series of thermometers that measure both the commercial and the non-commercial relationships between enterprise and enterprise constituents. For enterprise to succeed, these thermometers must be set neither too hot nor too cold. It is interesting to note, however, that within the sampled enterprises, both loans and advances and community donations tend, over time, to have a greater influence over cash flow.

The results of the surveys do provide tentative, targeted, “thermometer readings” that could be considered as guidelines for successful indigenous enterprise operations in Palau. The chart of a healthy indigenous enterprise would embrace readings of family employment based on merit; some sharing of enterprise decision-taking among employees setting wage levels according to profit and performance rather than in comparison with prevailing wage rates; providing, but restricting, loans and/or advances to employees to 10 percent or less of present monthly gross receipts; extending consumer credit to a level of 20 percent or less of present monthly gross receipts; and providing limited contributions to the community.

The form and nature of enterprise have changed from one of clubs and groupings to family and individual enterprise; from the *Modekngei* to the sole proprietor. But all enterprises are influenced by the expectations of not only the owner but also the employee, the consumer, and the community. In a small community all enterprise constituents are ever present with many families embodying all interest groups. To survive, the successful enterprise owner has had to steer a path that daily accommodates and reconciles these varied interests. The provision of some consumer credit, some employee loans and advances, some family employment, and community donations is an appropriate policy response, but the control or containment of the same is also a necessary firm policy.

The family plays an important role in both the establishment and the operation of successful enterprise, providing reason for enterprise activity, contributing to enterprise decisions, and helping to sustain enterprise by finance and effort. This influence is, however, initially checked and may also decline over time as employment policy is subjected to commerce and as consumer preferences are subject to the economy of the household.

The community remains important in influencing successful enterprise operations, but its role is far less important in determining enterprise establishment. Palau enterprise donations to the community of today are more in the nature of payments to the church and to youth organizations, and the provision of services and jobs and use less in the nature of traditional funding of feasts or *chocherael*.

While enterprise may have aided a few political ambitions, enterprise goals are more commonly non-political. The needs and interests of enterprise and enterprise constituencies, including those of the greater community, are, however, largely symbiotic. The policies and practices of successful indigenous enterprises in Palau are, however, changing. Enterprise policy is increasingly setting pecuniary transactions over those transactions that are more kin-based, community, or otherwise personal in nature. For example, the consumer shops in deference to the household economy rather than the family enterprise; the enterprise owner offers price discounts in relation to risk of repayment and size of purchase rather than kin commitment.

As previously concluded in the Micronesian pilot study (Pollard 1994), profits may be maximized with respect to the whole of society--rather than only to the shareholder. The distribution of these "profits," and the extent to which this distribution hinders cash flow, will, however, determine the continued existence and success of indigenous small enterprise.

Palauan indigenous enterprises have established the management policies and practices that support the long-term interests of business and therefore the economy but at some short-term cost to consumer, employee, family, and community. Consumers, employees, family, and community have also adapted. Palauan enterprises have succeeded in adapting to new social realities and opportunities. Quite possibly the same enterprises may have even introduced some social change, some counter to vested historical or traditional interests.

Although enterprise and society have adapted to new commercial relationships, the economy may not have matched such adaptation. Land is tied to traditional tenure and the domestic property, collateral, and therefore commercial credit market remains undeveloped. The alternative of development finance and other concessionary funding does not encompass the rigor of commercial lending, and whatever the form of concessional financing, it remains limited in terms of its collateral base and therefore its credit capacity and the potential size of overall domestic investment. Commerce needs commercial funding.

Palauan labor is also directed away from commerce, conditioned by both vestigial traditional subsistence, continuing U.S. government generated welfare programs, opportunities for better remunerated overseas employment, and a well remunerated large public sector. Domestic market and export opportunities exist, but existing domestic retail, service, and construction markets--which indigenous enterprises primarily serve--are small, and the export markets in fisheries and tourism are dominated by foreign investors.

Foreign investment approval processes have, however, protected domestic enterprise interests from foreign competition in other sectors. Given the demands of all enterprise constituents on domestic business and the inherited nature of competition, is it any wonder that the government and people of Palau have developed a set of policies, pricing, and practices that are consistently protective of current domestic ownership and commercial interests?

Enterprise is helping society to manage the transformation from a land and sea based subsistence economy to a land, sea, and cash based economy. The indigenous small enterprise story is a successful story, but it is also one where progress is constrained. Indigenous enterprises are commonly small and restricted by location and industry. Palauan and Pacific enterprise owners succeed in enterprise and the limitations to this success, at least in Palau, do not primarily lie in social or cultural relationships. Rather the limitations to indigenous enterprise development in Palau may be the limitations of essential supplies--of collateral, domestic commercial capital, and access to markets--especially export markets. The national government needs to review policies that influence commerce, investment, and the long-term interests of national well-being.

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Footnotes

¹ For a detailed review of the agreement and the political events leading up to the agreement, see Schuster, Donald R., (1994) Palau's Compact: Controversy, Conflict, and Compromise. ISLA: A Journal of Micronesian Studies, 2:2. Dry Season, 207-236. University of Guam.

² The quoted conclusions are summarized from the Plan document. See Sagric (1994), The Draft National Master Development Plan for the full text.

³ The World Bank reports that private sector employers in the Republic of the Marshall Islands can cause a distrust for the integrity of the legal system when courts fail to uphold and enforce the law. See World Bank (1993:16). Pacific Island Economies: Toward Efficient and Sustainable Growth. Volume 4. Marshall Islands: Country Economic Memorandum. March 8, 1993. Washington, D.C.

⁴ According to Sagric (1994:13): "General business indicators such as telephone calls, vehicle registrations, international business visitors, building approvals, merchandise imports, and electricity consumed show high real growth rates of 8 percent or more."

⁵ As defined by the Statistics Office of the United Nations, an "enterprise" is a commercial or legal unit that is the owning or controlling unit and may own or operate a number of establishments. The "establishment" is, ideally, an economic unit that engages in one or predominantly one business activity at a single location under one ownership for which separate records are maintained.

⁶ Average receipts from resale of products and services was US\$211,704. Fourteen enterprises received income from rental or leasing of land, buildings, and equipment ranging from US\$2,500 to \$130,000. The average of receipts for the 14 enterprises was US\$30,792. A few enterprises received income from commission or contract work (average receipts for six businesses of \$22,980); from transport services (average receipts for the five enterprises was \$8,475); and from other sources such as receipts for financing, insurance, real estate, and business services (average receipts for four businesses was \$613).

⁷ Other expenditure items were materials and supplies, fuels and electricity, water and other utilities, repairs and maintenance, subcontracts and commissions, rents and/or leasing of land, office, cars and equipment, transportation and communications, financing, insurance, real estate, and other business services.

⁸ Eleven helped decide on the purchase of inputs or inventory, four helped decide on what products or services to offer consumers, five helped on hiring and firing of employees, only one helped decide on contracts, and two on the pricing of products and services.

⁹ More than one-half the companies have five or fewer employees and 22 have fewer than 10.

¹⁰ Three were under 20, five in their 30s, and two in their 40s.

¹¹ Fourteen or 58 percent extended credit to a level of 20 percent or less, and six or 25 percent extended credit to a level of 50 percent or more of gross receipts.

¹² The practice of *chocherael* is traditional fund raising to aid the construction of a house, usually the first house for a newly married couple.