

MarkStra Caribbean

Monetizing Caribbean value innovations

Going beyond survival by leveraging small state knowledge across other
small states and like cities

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Table of Contents

Introduction	3
How is this paper different	4
Scope.....	5
Business type services.....	5
Definition	5
Why business services?	6
Cross border	7
Definition	7
Why cross border?.....	7
Knowledge and true knowledge workers.....	8
Definition	8
Why “true knowledge”?	8
Small states and small markets	9
Definitions	9
Microeconomics.....	10
Why microeconomics?.....	10
Increasing returns to scale.....	10
Competitiveness	10
Business sophistication.....	10
Principles applied.....	11
Efficiency and competitiveness.....	11
A unique product	12
Is there market for these innovations?	13
Competitiveness and small markets	13
Analogy with Prahalad’s Bottom-of-pyramid (BOP).....	14
Putting small state Value innovations to work	15
Value innovations increase demand.....	15
Identifying the most unique small market value innovations	15
Inappropriate large state solutions	15
Unique conditions.....	16
In search of marketable small state value innovations	17
Local enterprises in general	17
Tourism	18
International Financial Services.....	18
Value innovations in high fixed cost environments	19
Wind, water, sun	20
Open economy and isolation (island).....	21
Temperature and location	22
Coastline and saltiness.....	22
Dominant genetic makeup and health care	23
Relationships, attitudes and beliefs	24
Strategies to monetize the value.....	25
Long-term approach to monetization.....	25
A pragmatic approach to monetizing small state value innovations	26
Fiscal Actions.....	26
Economic Policy Actions	26
Business support.....	26
Financial Actions	27
General	27
Conclusion	27
About the author.....	28
Appendices	29

Introduction

Many academics, practitioners and government officials from small states and elsewhere can easily recite the disadvantages of small size in economic development. Few can and do mention concrete realistic advantages and opportunities for small states, which were not in some way derived from the presumed inherent disadvantages of being small.

Strategies often include general macro-economic recommendations, but hardly outline specific areas in which governments and private enterprise must invest to the benefit of the country and its bottom-line.

When they do, they stop at broad categories such as tourism and international financial services, which several small states have already developed. There is little attention to the further development of these sectors or other industries related to them, based on the unique opportunity for the islands or global trends

For small developing states, including Caribbean countries, economic conclusions, based on economic models developed in and for large states, which only outline advantages and opportunities in passing, these are strategies to “survive”, not strategies to go beyond survival and prosper. For the countries’ nationals they are demoralizing and provide young professionals with good reasons never to return to their small state and older ones to cease to seek challenges at a relatively young age. After all, there is no more to achieve. Not only do we need economic and business thinking whose premise it is that small states have marketable advantages, we need to specify the opportunities starting at the micro-economic level.

This paper is an attempt to start doing that. It is an exploratory journey, based on secondary and primary research.

How is this paper different

This paper is different in that it seeks to discuss and bring to light opportunities for small states, derived from the “unique portfolio of competences”ⁱ associated with small size, specifically in the Caribbean.

In addition, as a business economist, we begin to explore these opportunities at the microeconomic level, where wealth is created, examining where organizations and governments might have to invest resources to take advantage of opportunities.

We use the learnings of Prahalad (Bottom-of-Pyramid), Porter (Competitiveness) and Chan Kim and Mauborgne (value innovation) to develop models and thoughts that might bring to light unique opportunities for small states.

As businesses and individuals in small countries we often have the aspiration of providing our goods and services to larger markets. It is both a rational and emotional aspiration. Penetrating these markets would substantially increase our profits. It also fulfils the emotional need to be accepted by a large developed country. But, even if a competitive product exists, penetrating these markets often proves to be an illusive goal, for several reasons. First, those markets themselves have enough high quality domestic suppliers. Second, if one is used to small state metrics one can hardly emotionally grasp large market metrics, even if the production capacity exists, thereby, putting the small state provider at a disadvantage. Third, it is rare that a large market buyer would take a small state provider seriously enough to choose him over another, if nothing else because of preconceptions. Unless, of course, the small state provider can show “other” reasons why his product or service provides unique value.

Hence, excessive focus on large-state-small state relationships is bound to result in models and trade flows that are either largely to the benefit of the large states or assume that small states can only provide commodity like products and services, probably to large states. Models that continue to highlight tourism and international financial services as the main routes to developments for small states follow this thought. The only reason the India-type Knowledge Process Outsourcing (which is also as a service to large states) is not recommended is because small states have a limited labor supply and generally do not have the cheapest labor.

We argue that small states can develop and sell unique high-value services (based on the uniqueness of small market size) to other small states and possibly to larger states (through their smaller towns)

Our client, a Curacao-based medical supplies provider wanted to penetrate Central American countries, specifically Guatemala. This was a large market of 13 million souls (100 times bigger than Curacao), with a high incidence of the pathology. But the market conditions were significantly different. First, the

country because, of its size and high incidence of the ailment, manufactured its own devices. Second, the level of income and insurance structure were prohibitively unattractive. A few years later he entered Trinidad & Tobago, a small market, but 10 (ten) times larger than Curacao nonetheless, where income levels, insurance and general business structures were similar to Curacao. He stands to increase his market tenfold.

Scope

This study is concerned with:

- “business-type services” as defined by the General Agreement on Trade In Services (GATS).ⁱⁱ
- delivered “cross-border”
- by ‘true knowledge workers’
- in small states or markets
- focusing on the microeconomic level

Business type services

Definition

The World Trade Organization defines business services as follows:

- Professional services
- Computer and related services
- Research and development services
- Real estate
- Rental/leasing services
- Other business services (advertising, management consulting, testing, marketing research, etc.)

For the purposes of this paper we include in “business type services” selected services from the following WTO Sectoral Services Classification list, the intention being to include those services which have a high knowledge component.

- Communication services (audiovisual services)
- Distribution services (agents, franchising)
- Educational services (higher education)
- Financial services (asset management, advisory services)
- Health related services (medicine, hospital services)
- Recreational, cultural and sporting (entertainment, news agency, libraries, etc.)

B2C products and services developed in a small state can be packaged and sold (perhaps as franchises) to other small state entrepreneurs. In that sense they form an important category of possible business services.

Why business services?

- If prosperity depends on the prices the goods and services produced in a country by each individual can command on the world market,ⁱⁱⁱ then it makes sense to want to produce goods and services that command the highest prices. 50% of respondents to our survey finds that the rates they command abroad are higher than their domestic rates
- There is almost no transportation, which eliminates one of the great disadvantages of small states
- There is less susceptibility to natural disasters that destroy the company's assets.
- The levels of intellect of the people and of higher education in small states are similar to that elsewhere. Hence the quality of true knowledge in small states is the same as that in larger states
- Internet allows for level playing field in gathering and dispersing knowledge
- Internet also allows suppliers in small state to gather and disperse knowledge and their services at more or less the same speed as larger states
- Competition is not based primarily on price. Since each provider's service is at least slightly different from others, suppliers move in a market of monopolistic competition.
- Because of Return-on-Investment (ROI) considerations, providing business-to-business services in small markets requires more unique skills than providing business-to-consumer products in small markets. Since many small economies are open, small market consumers demand similar products as large market consumers. These products and services are imported, at a fair price (because of very high volumes), without any localization costs. Importing certain business services, however, is often less affordable because the functionalities and prices are set based on ROI for large markets. In addition, it costs to localize the functionalities, these costs again being based on large market metrics.
- There are 200 independent countries in the world. Each with its own tax and port authority, judicial system, government services, national parks and educational systems, as well as business structures designed to fit their market's needs and budget. These entities all buy B2B services. Of these 200 independent countries, 50 are small states. According to several sources, including The World Bank, these small states are, on the aggregate significantly different from their larger counterparts.^{iv} Could it be that this difference leads not only to vulnerability, but also to unique opportunities? Could B2B providers from similarly small states have unique strengths (compared B2B providers from large states) when it comes to serving the needs of these small markets?

Cross border

Definition

We define “cross-border” as anything beyond the natural market. Sometimes this means across former national borders. Other times it means across the geographical borders of the island or territory. Geographical borders usually also function as natural borders and define natural markets. Martinique and Guadelope are one “Departement”, but different markets.

Why cross border?

Primarily because several macroeconomic studies find that small countries, as long as they engage in international trade, do not have lower incomes than larger countries (Easterly and Kraay).^v

Secondly because small state knowledge providers have nowhere else to go to duplicate a service than across the border, in another market.¹ Duplication of a service (specialization, building expert knowledge) is desirable because of the possibility of increasing returns as a result of specialization.^{vi} Even the mere possibility of selling expert knowledge across borders (duplicating the service) has a beneficial effect. If a provider knows that he can sell a certain service more often, he is more likely to invest in R&D, leading to innovation and higher sophistication. This benefits home-based buyers by increasing their sophistication and competitiveness (Porter 2009). As an interviewee told us: “If I knew I could sell this product again, I would sell it at cost or even take a loss (to learn). Now, since I don’t think I can sell it again, I need to recoup all my cost and a profit in this one go. That means that I am going to keep my costs limited to what the client can and will bear, even if this means delivering a product that is less than optimal for the client and less than what I can deliver based on my knowledge.”

Finally, if prosperity depends on productivity and efficiency, and goods and services are produced more efficiently if duplicated/specialization (Romer, 1986), then it makes sense to duplicate services, if not at home, then in one of the 100 markets with the same characteristics.

¹ Sometimes there is just one viable client in that field. If there are more, it is sometimes impossible to serve others because knowledge buyers often frown upon a supplier delivering the same service to a competitor in the same market.

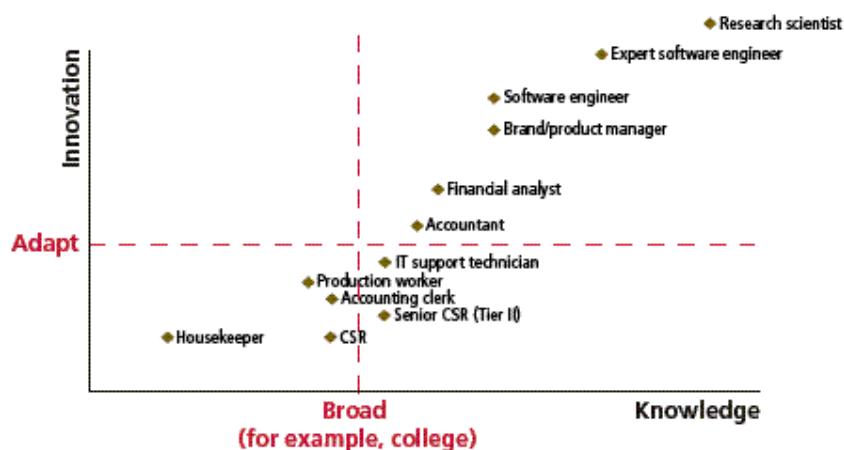
Knowledge and true knowledge workers

Definition

Knowledge is not just R&D related knowledge but also “tacit knowledge such as learning that depends on conversation, demonstration and observation”^{vii}, that hopefully will lead to better productivity, efficiency and innovation.

Mercer defines true knowledge workers “both in terms of their breadth of knowledge and the degree of innovation required by them”, as shown with some examples in chart 1 below. According to Mercer, “those workers located in the upper right hand quadrant of the chart are the organization’s true knowledge workers.” ^{viii}

Exhibit 1



Source: Mercer

Why “true knowledge”?

- Services with low added value services (tourism, help desks) are commodities and price sensitive. True knowledge services are not.
- It increases sophistication of the domestic businesses served and the overall quality of the business environment of the country^{ix}. This in turn benefits the country's competitiveness.
- Provides challenge at home for college graduates, thus reducing brain drain.
- Provides easy entry for small business and individuals: you essentially just need a brain.
- There is no need for a large labor force, as traditional knowledge process outsourcing initiatives require.
- True knowledge services are a growth area. Studies done in, among others the United States show the need for expert thinking and complex communication to be growing, while that for manual and routine cognitive skills decreases.^x

Small states and small markets

Definitions

In discussions about development and opportunities the focus is often on larger and/or lower income states. This focus seems to be increasing with the rise of countries like Brazil, Russia, India, and China, especially as businesses start to realize their consumptive potential and are able to serve them.

Many states, such as those in the Caribbean, are neither large nor low income. Many tenets do not apply. Presumably for that reason the World Bank started a Small State Forum, the Commonwealth Secretariat also has a Small State Division and there exists a Small State Institute (Malta).

The World Bank defines small states as a state with a population of 1.5 million or less.

There are, however, many more small markets than there are small states. Dependent territories, such as Martinique and Canary islands, are not included in the World Bank definition, but most definitely qualify as a small market.

For the purposes of this paper, markets (and not states) are important because private enterprise and other organizations develop and sell products and services for markets, not states. In this paper we use the terms as synonyms.

How many small states and/or markets are there?

- 56 small states (Paul, 2000).
- 33 small dependent territories (Geographica World Atlas, 2007)
- 125 islands with a market of less than 1.5 million (Wikipedia, 2010)
- Only about 240 cities in the world have populations exceeding 1.5 million^{x2}

² Many public and private business services are offered within town/city limits.

Microeconomics

Why microeconomics^{xiii}?

First, because wealth is created at the micro level. According to Porter, “stable political, legal, and social institutions and sound macroeconomic policies create the potential for improving national prosperity. But wealth is actually created at the microeconomic level—in the ability of firms to create valuable goods and services using efficient methods. Only in this way can a nation support high wages and the attractive returns to capital necessary to support sustained investment.”^{xiii} Porter goes on to say: “The Business Competitiveness Index proves to account for 83% of the variation across countries in the level of GDP per capita, remarkably high given the addition of so many low income countries. These findings highlight the pressing need to better incorporate micro economic competitiveness agenda into efforts to stimulate economic growth.”

Secondly, we focus on micro-economics so that we have energy to study decisions of people and businesses regarding allocation of resources. Starting at the macro level entails a top down approach. Starting at the micro level entails a bottom-up approach. When you start at the top, there is less energy for attention to the bottom.

Increasing returns to scale

Romer (1986) presents empirical evidence that when knowledge is an input, increasing returns to scale is possible leading to long-run growth. We will assume this holds for the type of cases of knowledge input discussed in this paper. Chan Kim and Mauborgne (2005) have used this as an important assumption in their value innovation model. So do we.

Competitiveness

Again according to Porter (2009): “To understand competitiveness, the starting point must be the underlying sources of prosperity. A nation’s standard of living is determined by the productivity of its economy, which is measured by the value of goods and services produced per unit of the nation’s human, capital, and natural resources. **Productivity depends both on the value of a nation’s products and services, measured by the prices they can command in open markets, and the efficiency with which they can be produced.**^{xiv} “

Business sophistication.

Porter (2009) argues that the micro economic conditions for productivity and development lie in:

- Business sophistication (the sophistication with which a country’s business compete);
- The quality of the micro economic business environment in which they operate.

He continues to say that: "Companies must shift from competing on endowments or comparative advantages (low-cost labor or natural resources) to competing on competitive advantages arising from superior or distinctive products and processes."

Exhibit 2: Company Sophistication and Economic Development		
Low Income Countries	Middle-income Countries	High-Income Countries
Competitive advantage beyond cheap inputs	Extent of regional sales	Capacity for innovation
Production process sophistication	Control of international distribution	Breadth of international markets
Broad value chain presence	Extent of branding	Extent of incentive compensation
Reliance on professional management	Company spending on R&D	Willingness to delegate authority
	Prevalence of foreign technology licensing	
	Extent of staff training	

Principles applied

Efficiency and competitiveness

Advertising agencies, in a large or small market, generally have only one domestic bank as client.

Imagine that an agency does manage to acquire 2 banks as clients across different markets.

Would the agency not be more competitive than the norm, regardless of the size of the market it operates in?

What are the chances that an advertising agency in a small market manages to acquire another banking client in the adjacent small market? Remember that small markets are isolated (so their banks are not competitors) and that some buyers prefer 'foreign' suppliers, if for nothing else because of confidentiality issues.

Once the agency does serve two banking clients, **has become more efficient** at serving banks and is therefore more competitive, can it serve a bank in a small market or in a small town in a large state competitively? Why not?

A unique product

We have shown that due to the possibility of increasing returns as the result of specialization, small state organizations can be efficient and therefore competitive if they specialize. However, efficient is not by definition effective and high quality. So, can small state organizations achieve high effectiveness and quality?

It is not uncommon for the nationals of many small states to do at least part of their higher education at a school in a large developed state. In fact, that is the cause of brain drain. Presumably, they graduate with the same knowledge as anyone else. In addition, we have stated before that, because of connectedness, the acquisition of knowledge is a rather level playing field. The world is flat. So, the quality of knowledge of true knowledge workers of small states is at least as good as that of true knowledge workers in large states. However, these inputs do not necessarily make their output uniquely effective for a small state. Does something else do so?

a. Efficiency-oriented

Because of the challenges to achieve an acceptable ROI in small markets, innovations developed in small states, are inherently efficiency-oriented beyond the usual efficiencies acquired through specialization. Consumers may be able to easily buy standard “large developed market” consumer products and services at a good price. However, small state businesses, because of the small market over which R&D costs can be spread, insist on highly efficient solutions/innovations.

b. Customized to small market

In addition, if a small market is inherently different from a large market, then serving a small market successfully requires unique expert skill. One might think of ways to deal with the fact that everyone is related, to manage effects of the sun, wind, rain, sea, to manage the fact that there is a long lead time for delivery of products, to manage the fact that there is less choice, etc. ***So besides extraordinary efficiency, there may also be innovation aspects specific to the characteristics in a small market.***

These innovations have high value to small-state-buyers because they are so efficiency-oriented and so customized to match small market needs. Therefore they are a marketable innovation.

Kim and Mauborgne (2005) call these “value innovations”, the cornerstone of their Blue Ocean Strategy. Here is an example.

A European Dutch commercial photographer who had lived in Curacao for a long time, was giving modeling classes to local, generally short, girls. He told me: “My colleagues in Holland ask how I can work with such short girls.” He continued: “I have learned how to photograph you and what subjects you are better suited for.” These would include close-ups of the skin, and strong

colors. In addition, it is easy to find any exotic mix desired. "When pitching for jobs in the Netherlands, the kinds of jobs I pitch for are related to face, skin and other personal care, summer (because of climate and the ability to absorb strong colors), bright smiles, curves, etc.." Can he photograph women in Thailand better than the average Dutch photographer? Would he be able to take facial shots better than the average photographer? Would he be doing so at a cost that is lower than the average cost of a photo shoot? Yes, because the price his clients can pay is lower than average, because of small market ROI considerations.

Thus, the value innovation lies both in functionality (a product that fulfils a need better) and in cost (because of the ROI considerations). It is a “superior and distinctive product or process” (exhibit 2), moving small states from middle income survival to high income beyond survival.

Is there market for these innovations?

Are there enough businesses in other small towns with a size comparable to what the small state knowledge provider is used to? Yes, there are enough businesses. In the U.S. 66% of all US businesses have 9 employees or less.^{xv} In Curacao 87% of all businesses have 9 employees or less.^{xvi} I.e. an architect who designed a new building for a beauty parlor with 9 people staff can sell the same product to many other US beauty parlors, which are likely to be of similar size. Moreover, 99.7% of all US businesses have 500 employees or less. For many true knowledge workers, even in a small state, a client with 500 employees is quite common.

Going to international markets is another way to move beyond middle income survival (exhibit 2).

Competitiveness and small markets

That market size is not determinant for business competitiveness (and therefore marketability of a product) can also be concluded from the world competitiveness index. Five (5) of the ten (10) most competitive countries figure in the top 10 despite a market size that is smaller than ideal. Three of the top five (5) countries scoring highest on the Business Competitive Index are countries whose market size is smaller than ideal. The top country is Finland, with a population of 5.3 million (smaller than the CSME).

Finland, a country of only 5.3 million is the home of Nokia cell phones. The Fins allegedly developed the put a lot of effort in the development of cellular technology because while there were quite a number of people living in outlying areas, this was not enough to make fixed telephone lines viable. So too Finland is known for Waste Water Treatment Plants for home use. Again, it was not viable to provide running water to the outlying areas.

Analogy with Prahalad's Bottom-of-pyramid (BOP)

That an innovation developed in one type of market can be leveraged across other similar markets is not a unique concept. Prahalad argues that there is emerging evidence that there are distinct sources for opportunity for a large firm that invests the time and energy to understand and cater to the BOP markets. Some sources are:

- Some BOP, because of their size are attractive as standalone entities
- Many local innovations can be leveraged across BOP, creating a global opportunity for local innovations
- Some innovations from the BOP markets will find applications in developed markets
- Lessons from the BOP markets can influence the management practices of global firms^{xvii}

We argue that the same would be true for small markets.

- For local (small) knowledge providers, other small markets would be attractive.
 - For a Curacao company access to the St. Lucia market, would mean doubling of its market. Both islands have a population of around 150.000
- Local innovations can be leveraged across small states
 - Phrahald argues that fine-tuning business models developed for developed countries so that they may apply to BOP is seeking failure. By the same analogy, fine-tuning business models developed for large markets to apply to small markets may be seeking failure.
 - An innovation developed in a small market, “based on a deep understanding of the nature and requirements” of this small market, might very well be well-applicable to another small market
- Innovations can be used by developed states or larger states
 - Many innovations in private enterprise are developed for markets, not states. Small states are not the only small markets. The islands of Hawaii, Fiji, Indonesia, Cape Verde, Canarias, also consist of several small markets each with much of the same challenges and opportunities as small states
- Innovations developed in small states can influence large company’s business models
 - Because of the challenges to achieve an acceptable ROI in small markets, innovations developed in small states, are innately “value oriented”. Consumers may be able to easily buy “large developed market” consumer products and services. Small state businesses, because of the small market over which R&D costs can be spread, insist on value oriented innovations, same as BOP consumers do for consumer products and services. These efficiencies can be adopted for solutions in large markets.

Putting small state Value innovations to work

Can these ‘efficiency-oriented’ or “small-market oriented” value innovations, which are made matter-of-factly in small markets, be used to produce income for the innovator and his country?

Value innovations increase demand

Kim and Mauborgne (2005) argue that a value innovation increases total demand (shift of the demand curve). In our example, it is not just the 100 small markets (small states, islands and dependent territories) for whom the advertising agencies’ expertise could provide a unique benefit. It would provide unique benefit to banks in any town of 1.5 million inhabitants or less. In addition, because a small budget is at the crux of the innovation, many more markets could benefit (especially in recessionary times).

They continue to argue that “in a world of non-rival and non-excludable goods, such as knowledge and ideas, that are imbued with the potential of economies of scale, learning and increasing returns, the importance of volume price and cost grows in an unprecedented way. Under these conditions, companies would do well to capture the mass of target buyers from the outset and expand the size of the market by offering radically superior value at price points accessible to them.”^{xviii}

This would suggest that the innovators and their countries would have to:

- Identify which of the myriad value innovations provide the most potential in which markets; and
- market these aggressively.

Identifying the most unique small market value innovations

By identifying which types of services have been developed in small markets because:

1. the large market solutions did not meet the small market needs; or
2. They are based on conditions unique to small markets

Inappropriate large state solutions

Large state solutions can be inappropriate for small states for a variety of reasons including cost, complex input or output, applicability, maintenance, required redundancies, and rapid availability of parts and technicians.

One of our respondents told the case of a sophisticated software being made available at low (or no) cost to a small market. Even so, a small market alternative had to be developed because the analysis and reporting (in the large stage software) was too sophisticated and complex for the job that had to be done and few analysts had the desire to try to understand

parts of an application for which they had no immediate use. In addition, the cost of maintaining this software was high.

Unique conditions

The World Bank has defined eight (8) areas of vulnerability of small states.

1. limited diversification
2. limited capacity,
3. Poverty
4. susceptibility to natural disasters and environmental change
5. remoteness and isolation
6. openness,
7. income volatility
8. Limited institutional capacity

We believe that of these only four are inherent to being a small state

1. Limited capacity (in market size and labor force)
2. Relative remoteness and isolation (because small states are often islands)
3. Openness (because in a small market many goods are easier imported than manufactured locally)
4. Limited institutional capacity, if for nothing else because of small market size and its inherent disadvantage in producing suitable institutional services at acceptable ROI and a limited labor force to fulfill the functions necessary for better institutional capacity.

There are many small states which:

1. Are unconditionally rich.
2. Do not have a history of natural disasters (a.o. the Netherlands Antilles).
3. Are more diversified and have less income volatility, f.i. than the large auto cities of Michigan or states that depend heavily on agriculture
4. Income volatility is tied more to sources of income than to size. Orlando and Aruba suffer equally from a downturn in tourism.

In our quest for opportunities we have combined the inherent characteristics above of small markets with other rather unique characteristics of some of these territories to come up with some possible areas where value innovations might already exist or be pursued (and documented).

In search of marketable small state value innovations

Porter has identified a number of issues that are related to business competitiveness. We list them in order of importance with the first column being the more important ones.

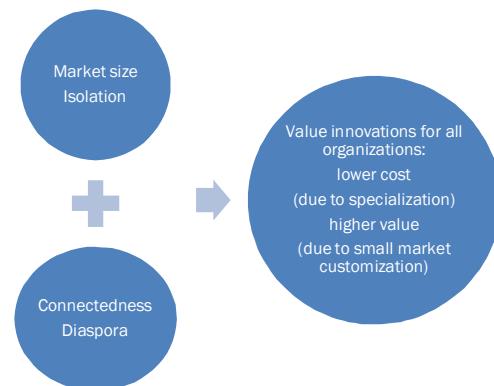
Exhibit 3 Business Operations and Strategy Elements	
Production Process Sophistication	Extent of Staff Training
Value Chain Presence	Company Spending on R&D
Extent of Branding	Willingness to Delegate Authority
Breadth of international markets	Reliance on professional management
Extent of Marketing	Extent of incentive compensation
Capacity for innovation	Degree of customer orientation
Extent of regional sales	Control of international distribution
Nature of competitive advantage	Prevalence of foreign technology licensing

Source: Porter Business Competitiveness Index

Local enterprises in general

As long as they have developed or successfully adapted a business model to enable survival in a small market, all small state enterprises and small enterprises in general, whether indigenous or foreign, have marketable value innovations. Some practical examples include.

- Staffing
 - Managing a small staff (vacations, illness, pregnancy, training)
 - Managing small staff when everyone is related
 - Recruiting and retaining talent when the labor supply is tight
 - Effectively and efficiently training staff when there are not enough people for an in-house training and an open registration training might not be effective
- Competing with foreign brands
 - when you have less or less sophisticated R&D
 - when you have no shared services (IT, marketing, finance)
- Dealing with local suppliers that are not always equally sophisticated
- Purchasing, inventory and revenue management to attain desired ROI with small volumes
- Managing the (fixed) cost of bookkeeping and accounting to stay within reasonable range
- Managing rent and utilities to stay within reasonable benchmarks



Tourism

In many small states tourism is an important source of income. Yet, for all practical purposes their tourism infrastructure is based on small size. Any innovations by indigenous brands in this sector is thus unique to small states.

France, the most important travel destination in the world received about 80 million tourists in 2008. Mexico, the 10th most important received around 23 million.^{xix} All the islands of the Caribbean together received 23 million stay-over visitors in 2007.^{xx} This represents an average of 1 million tourists per island for the 22 reporting islands, a relatively small number compared to the tourism “giants”.

All the indigenous brands of hotels, car rentals, restaurants, attractions, touring companies, their suppliers, as well as all government agencies involved in the sector must contain important value innovations. These innovations could be with regard to product development, advertising, hiring and training of talent, reporting systems, general business management, as well as the general business model. They could be marketed to other small tourist destinations in small states as well as large states with a tourism industry of about 1 million visitors.

Chukka Caribbean Adventures , founded in 1983 and headquartered in Jamaica, operates twenty-eight (28) tours in several Jamaican cities (Montego Bay, Ocho Rios, and St. Mary) as well as in Belize, The Bahamas and Turks & Caicos Islands. Many of its adventures are perfectly suited for other destinations, as is its tour booking template.

International Financial Services

The difference between international financial services and tourism is that the brands are usually foreign brands with foreign clients with foreign expectation levels.^{xxi} Therefore many innovations are not homegrown. However, unique value innovation may lie in systems to:

- select, train and retain local employees to meet those expectations
- train locals who are likely to be unfamiliar with the types of financial services offered^{xxii}. In Curacao, for instance, the Fund Services industry has partnered with the University to offer continuing education specifically geared to the industry
- marketing to convince potential clients that their expectations will be met in a small market

Value innovations in high fixed cost environments

There are certain endeavors that require an inevitable high fixed cost to attain and maintain an acceptable level. These include:

- Utilities
- Government services such as education, health care, justice
- Heritage things such as national parks, monuments, museums, and even events like carnival

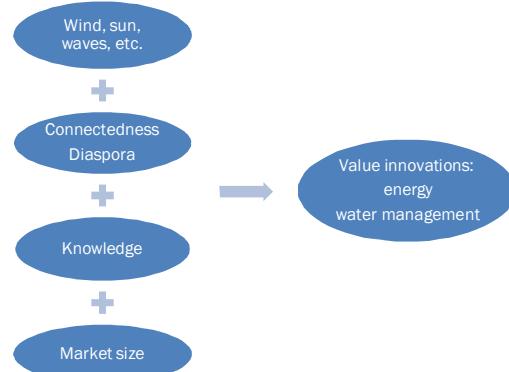
Presumably efficiency-oriented value innovations can be highest here because of the high fixed cost component and the necessity of the service for life or for macro-economic development purposes, to belong to nations of a certain democratic development (e.g. Judicial system). In other instances the services are desired because they represent a country's heritage or identity.

To expand its base, Trinidad facilitates the participation of foreign visitors in its parades. Costumes are simple, and can, in principle, be exchanged. I was surprised at how simple it was for a foreign visitor to participate in Trinidad (as compared to Curacao) and how many foreign participants there were. Certainly an innovative concept that can be sold to Curacao, as it has been in other Caribbean countries.

To qualify for the United Nations World Heritage List in the 1990's, Curacao had to put a certain structure in place to safeguard to continued existence of the monuments. These included a national monument policy, funding, expertise and guidance for restoring and maintaining these monuments, as well as regular courses and seminars. These were either developed from scratch or copied, in Curacao's case probably from the Netherlands (a large state). In the 1990's, the Foundation for the Preservation of Monuments in Curacao (Stichting Monumentenzorg Curacao) joined forces with other entities to put Historic Willemstad on the UNESCO World Heritage List. In 2002 it assisted the island of Saba (population 1.000) in its efforts to be inscribed in said list.

Wind, water, sun

While not all small states and markets have abundant wind, water and sun as resources, the Caribbean markets certainly do. Combined with the connectedness provided by the internet, the knowledge residing in the Diaspora and locally, and importantly the pressures due to market and geographic size, these might lead to value innovations in the production of wind, water and/or solar energy. Consider that existing wind and solar parks simply may require more space than a small territory can dedicate to these. Densely populated cities and towns may face the same challenges.



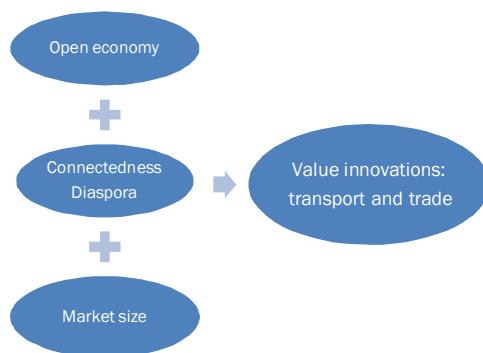
As I entered a NYC hotel lobby one Summer, I saw that it had started raining. A few hours later I took the train to my next destination. I wondered how come the gardeners had not cleaned up the tree branches they had pruned earlier. It is only later that I realized the havoc that that 15 minute storm had wrought. No way would that have happened in Curacao.

The island of Bonaire, population 12.900^{xxiii}, has produced a most impressive number of World Champions in Freestyle Windsurfing. On YouTube a [Bonaire freestyle windsurfer practices his moves in "light wind"](#). "That's no light wind", several people commented.

What can we do better, research better, design better, because we dealing with strong winds is so normal for us?

Open economy and isolation (island)

Being an island and having an open economy by definition means extensive trade and transportation. This is sure to have produced value innovations in logistics, sourcing, and inventory management, which can be marketed across borders.



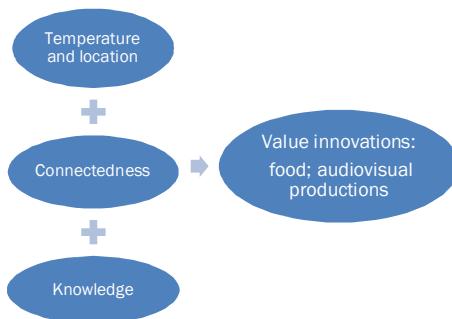
Our client was a fashion retailer. It sold high quality, in-season merchandise imported from Europe, as its positioning called for. Fluctuating exchange rates, long delivery times and small orders (which made it unattractive to sellers) impacted its bottom line. So did the fact that it didn't want to discount heavily when the time came for fear that this would damage the reputation of the brands it carried. How were they supposed to prosper? Good inventory management, periodic discounting and above all, sourcing from suppliers who cater to small buyers, for instance in Miami. Not only are they used to small buyers, they value them and are used to the logistics of shipping to the Caribbean.

Size and isolation also leads to innovative use of technology. The University of the Virgin Islands has been video-conferencing its MBA classes between St. Thomas and St. Croix since the early 1990's because neither island had enough students to fill a class. Continuing in education, for specialized seminars there might not be enough market size in one island. Scheduling the seminar towards the weekend (rather than midweek) opens the possibility for foreign participants to stay and enjoy the weekend. Continuing education courses may better be scheduled as an intensive weekend than weekly over 10-week period, again enabling the participation of other islands. Expensive international speakers might be invited to coincide with a conference.

Zumba was developed in Cali Colombia in 1999. Within 10 years its products are available in 40000 locations in 75 countries.

Temperature and location

Not all small states have year-round warm temperatures or long days. But the Caribbean certainly does. These can lead to important innovations in products as diverse as food production and audiovisual products.



Several designers and photographers have highlighted the opportunities for professional photo shoots for large magazines or advertisements because the weather is always predictably sunny.

In Curacao, Desert Green House Inc. produced strawberries and tomatoes in cooled greenhouses based on the long days and advantageous average temperatures. Also, according to the gardener Vivian's Nursery^{xxiv}, plants continue growing without resting, because there is little change between day and night time temperatures. Grass has to be mowed twice a week in Curacao, when the same grass is mowed every two weeks in Puerto Rico. What are the opportunities this creates?

About 10 years ago someone had an idea to grow pomegranate commercially in Curacao. In semi-arid Curacao pomegranate grows, blooms and fruits like weed. Good thing the investors in the Aloe Vera plantation have gone along with the opportunity they saw.

Coastline and saltiness

Abundant coastlines lead to industries such as diving, fishing and aquaculture. They also call for the management of beaches and reefs, often times systems developed specifically for small states.

Carmabi,^{xxv} the center for Caribbean Research and the management of Biodiversity in Curacao offers researchers the facilities to do research in Curacao based on the unique marine conditions. It also offers consulting services to entities in other countries based on the knowledge gained in Curacao

Beach management and patrol are essential to all Caribbean islands. Does one island have a model that can be sold to others?

The Mediterranean architectural style is popular in the Caribbean, especially with foreign real estate buyers. But, the saltiness and windiness wreaks havoc with the wrought iron. Is it possible that Caribbean architects have developed a similar look that does befit this climate?

Dominant genetic makeup and health care

Certain diseases are more prevalent in some races than others. In most of the Caribbean the Black race is predominant. Can certain research and trials for diseases prevalent among black people be done here, in a more pleasant climate for the researcher, and perhaps even under a more homogenous group that is, perhaps, less likely to pick up and move 500 miles away?

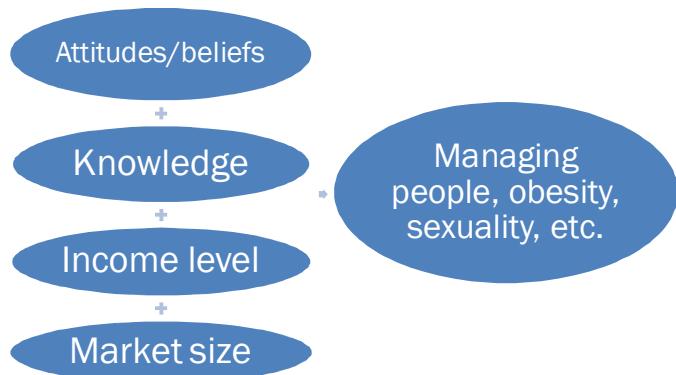
In addition, surely the constraints due to market size have led to value innovations in health care systems and the treatment of diseases. A hospital in a small market cannot have many specialties permanently on-island? What are these innovations in medical practice management and can they be marketed to other small hospitals or implemented in other small towns?

In Curacao several medical specialists have patients in other islands. Their larger patient base makes it easier to continue innovating in their specialty, benefitting both their professional curiosity and their patients. However, to be able to serve their patients in several islands, they must have innovated in the way their practice is managed. Some of these innovations have entailed forming alliances with like (competing) specialists who focus on other areas of the specialty as substitutes for the many times they are not on-island, developing a good understanding with airlines about travel and transportation, learning the health care system (and products) in other markets, so that they can function within that and patients can get insurance, brushing up on medical language skills, etc. Can these innovations be marketed elsewhere, even in large markets?

Relationships, attitudes and beliefs

Nowhere are relationships more important than in small countries and towns. Everyone is related. So business is likely to be less strictly-business than in larger markets. These close ties also influence attitudes and beliefs. In her thesis, Dr. Rubya Maduro^{xxvi} concludes that in Curacao, expectations with regard to service levels vary according to culture. If this is true, what innovative rewards and incentives systems could be developed based on this knowledge? Could similar systems, based on the same principles, be developed for other small towns?

To the extent that close relationships also influence attitudes, beliefs and actions with regard to issues such as obesity, sexuality and abuse, can effective innovative programs, developed for one small market, be applied across markets? Can they be applied in large cities where the Diaspora resides?



Strategies to monetize the value

The ideal approach to monetizing the hidden value of value-innovations is an integral structured approach. However, this approach might not be practical if the stakeholders cannot come to an agreement. So, we present both a structured and a pragmatic approach.

Long-term approach to monetization

- a. Examine possibilities at a micro-level.

To say that a country needs to focus on “international financial services” is too broad and does not provide a true direction. Up to the 1980’s the international financial services in Curacao were mostly tax and legal based. Today the growth area is fund administration services which is mostly accounting and finance based.

- b. Examine which sectors have the most measurable and unique value innovations. I.e. the innovations are most highly adapted to a small market and there is the most need.
- c. Determine for which alternatives there is an existing base, including providers that already have specialties, that have been exported, around which clusters can be built .
- d. Choose 3 to 5 areas to focus on, with the provision that viable initiatives from private enterprise should always be supported. This, since the entrepreneur is likely to have already determined the viability of the endeavor.
- e. Develop business cases that highlight the opportunities in order to find private investors that might want to invest in the area.
- f. Promote theses on those topics, by students, especially those abroad and in the Diaspora, to increase understanding of:
 - the dynamics of small market value innovations,
 - how they should be marketed to potential clients and local knowledge providers,
 - how to document innovations
- g. Promote innovation-oriented and productive use of technology and the internet. A well-connected country does not guarantee that it will be profiting from the internet.
- h. Involve the Bureau of Intellectual Property, which may help in documenting and registering the innovations.

A pragmatic approach to monetizing small state value innovations

If we believe that private enterprise itself can and will determine what the best opportunities are for its innovations, then it may suffice to provide incentives and/or support to encourage investment in the desirable areas. The following suggestions were contributed by Curacao-based exporters of true knowledge services and include:

- Fiscal Actions
- Economic Actions
- Business support
- Everybody else

Fiscal Actions

1. Incentives for
 - investment in human capital and R&D. A redefinition of R&D might be necessary to include all systems designed in small market because there was not a viable off-the-shelf alternative
 - knowledge export promotion
 - taxation of export profit
2. Eliminate VAT tax between knowledge workers to encourage cluster formation and better quality execution.
3. Higher tax deductibility to lower the effective cost of air connectivity to potential markets.
4. Offset long travel time by taxation on days worked locally only, following the Belgian model.³

Economic Policy Actions

1. Incentives to groom local talent to work in international services environment
2. Facilitate import of foreign talent to reach a good mix of local/international talent

Business support

1. Product development support
 - To register/patent innovations
 - To acquire international certifications
 - To document the business models
2. On-the-go support
 - To find international knowledge alliances
 - To find temporary offices/meeting places abroad

³ Professionals who live in Belgium and work for the so called European coordination centers of companies pay Belgian income tax only for the days worked in Belgium. If someone makes Euro 100,000 annually and travels 25% of the time, she will pay taxes on Euro 75,000. The rest is tax free.

3. Marketing support

- To register with international consulting databases, such as the United Nations
- To speak and publish internationally
- To package franchisable services and business models

Financial Actions

- Loans, credit, insurance, factoring for knowledge engagements abroad
- Affordable liability insurances

General

1. Subsidies and incentives to true knowledge providers do not suffice. Local organizations should make an effort to engage local providers. This enables specialization/experience, a key to exporting knowledge. These engagements might be subsidized to enable the provider to develop quality solutions which can later be exported. The cost of sending a local provider abroad to gain expert knowledge in an area might be equal to the cost of hiring a foreign provider who already has the expertise. When the local provider is sent abroad, however, the expertise gained becomes part of the country's knowledge capital. In addition, she establishes a larger network for future endeavors.
2. Local representatives of multinational firms/organizations could propose local knowledge providers for regional engagements and emphasize the benefit of engaging a small market provider. We have all experienced the fact that suggestions provided by large state providers are not applicable to our situations.

Conclusion

We have shown that, same as with BOP innovations, there are small state innovations based on their unique set of competencies and that these can be leveraged across other small states and small towns/cities. Small state innovations are likely to be extraordinary efficiency oriented and based on other unique characteristics of small states. Therefore they have value, are value innovations (Chan Kim and Mauborgne), and can be marketed across small states and small towns/cities. The resulting increase in efficiency adds to the country's productivity (Porter) and increases the sophistication with which other domestic firms compete, both to the benefit of the country's business competitiveness and ultimately to its prosperity.

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- BSBA, Boston University, Marketing and Finance

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- Major trends facing Curacao in a global economy
- Furthering Curacao Knowledge Export
- Several studies to develop regional brand strategy (incl. banking, health care, beverages)
- [Caribbean Strategy and Marketing Blog](#)

Other:

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- Initiator Curacao Knowledge Exporters,
- Initiator Curacao Marketing Advertising and Communication Providers group
- Former president Hospitality Sales & Marketing Association International Curacao
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Appendices

Appendix A

C. Knowledge codification

In order to facilitate economic analysis, distinctions can be made between different kinds of Knowledge which are important in the knowledge-based economy: know-what, know-why, knowhow and know-who. Knowledge is a much broader concept than information, which is generally the “know-what” and “know-why” components of knowledge. These are also the types of knowledge which come closest to being market commodities or economic resources to be fitted into economic production functions. Other types of knowledge – particularly know-how and know-who – are more “*tacit knowledge*” and are more difficult to codify and measure (Lundvall and Johnson, 1994).

□□□ **Know-what** refers to knowledge about “facts”. How many people live in New York? What are the ingredients in pancakes? And when was the battle of Waterloo? are examples of this kind of knowledge. Here, knowledge is close to what is normally called information – it can be broken down into bits. In some complex areas, experts must have a lot of this kind of knowledge in order to fulfill their jobs. Practitioners of law and medicine belong to this category.

□□□ **Know-why** refers to scientific knowledge of the principles and laws of nature. This kind of knowledge underlies technological development and product and process advances in most industries. The production and reproduction of know-why is often organised in specialised organisations, such as research laboratories and universities. To get access to this kind of knowledge, firms have to interact with these organisations either through recruiting scientifically-trained labour or directly through contacts and joint activities.

□□□ **Know-how** refers to skills or the capability to do something. Businessmen judging market prospects for a new product or a personnel manager selecting and training staff have to use their know-how. The same is true for the skilled worker operating complicated machine tools.

Know-how is typically a kind of knowledge developed and kept within the border of an individual firm. One of the most important reasons for the formation of industrial networks is the need for firms to be able to share and combine elements of know-how.

□□□ This is why **know-who** becomes increasingly important. Know-who involves information about who knows what and who knows how to do what. It involves the formation of special social relationships which make it possible to get access to experts and use their knowledge efficiently. It is significant in economies where skills are widely dispersed because of a highly developed division of labour among organisations and experts. For the modern manager and organisation, it is important to use this kind of knowledge in response to the acceleration in the rate of change. The know-who kind of knowledge is internal to the organisation to a higher degree than any other kind of knowledge.

Learning to master the four kinds of knowledge takes place through different channels. While know-what and know-why can be obtained through reading books, attending lectures and accessing databases, the other two kinds of knowledge are rooted primarily in practical experience. Know-how will typically be learned in situations where an apprentice follows a master and relies upon him as the authority. Know-who is learned in social practice and sometimes in specialised educational environments. It also develops in day-to-day dealings with customers, sub-contractors and independent institutes. One reason why firms engage in basic research is to acquire access to networks of academic experts crucial for their innovative capability. Know-who is socially embedded knowledge which cannot easily be transferred through formal channels of information.^{xxvii}

Appendix B

Sovereign small states		
Geo Area	Country	Population
Africa	Botswana	1,905,000
Africa	Cape Verde	499,000
Africa	Comoros	644,000
Africa	Equatorial Guinea	659,000
Africa	Gabon	1,448,000
Africa	Gambia, The	1,660,000
Africa	Guinea-Bissau	1,575,000
Africa	Lesotho	2,017,000
Africa	Mauritius	1,269,000
Africa	Namibia	2,114,000
Africa	Sao Tome & Principe	161,000
Africa	Seychelles	86,000
Africa	Swaziland	1,168,000
Asia	Bahrain	800,000
Asia	Djibouti	848,000
Asia	Qatar	800,000
Asia	Brunei	400,000
Asia	Fiji	839,000
Asia	Kiribati	97,000
Asia	Marshall Islands	60,000
Asia	Micronesia	111,000
Asia	Palau	20,000
Asia	Samoa	182,000
Asia	Solomon Islands	507,000
Asia	Timor-Leste	1,098,000
Asia	Tonga	104,000
Asia	Vanuatu	231,000
Asia	Bhutan	687,000
Asia	Maldives	310,000
Europe	Cyprus	900,000
Europe	Estonia	1,300,000
Europe	Iceland	300,000
Europe	Malta	400,000
Europe	Montenegro	622,000
Europe	San Marino	1,300,000

Americas	Antigua & Barbuda	86,000
Americas	Bahamas, The	335,000
Americas	Barbados	255,000
Americas	Belize	311,000
Americas	Dominica	73,000
Americas	Grenada	106,000
Americas	Guyana	763,000
Americas	Jamaica	2,689,000
Americas	St. Kitts & Nevis	49,000
Americas	St. Lucia	170,000
Americas	St. Vincent & the Grenadines	109,000
Americas	Suriname	515,000
Americas	Trinidad & Tobago	1,338,000
	Total	33,920,000

Source: The World Bank Small States Forum, October 2009

Appendix C

Small dependent territories					
1	Geo area	Territory	Population	Dependent of	Source
2	Oceania	American Samoa	7,900	USA	Atlas
3	Oceania	Cook Islands	21,400	New Zealand	Atlas
4	Oceania	French Polynesia	270,500	France	Atlas
5	Oceania	Guam	168,600	USA	Atlas
6	Oceania	New Caledonia	216,500	France	Atlas
7	Oceania	North Mariana Islands	80,400	USA	Atlas
8	Asia	Gaza Strip	1,376,000	Palestine	Atlas
9	Asia	West Bank	2,386,000	Palestine	Atlas
10	Europe	Faroe Islands	46,000	United Kingdom	Atlas
11	Europe	Gibraltar	28,000	United Kingdom	Atlas
12	Europe	Guernsey	65,000	United Kingdom	Atlas
13	Europe	The Isle of Man	74,000	United Kingdom	Atlas
14	Europe	Jersey	90,000	United Kingdom	Atlas
15	Africa	Mayotte	193,600	France	Atlas
16	Africa	Reunion	776,900	France	Atlas
17	Africa	Western Sahara	266,000	Morocco/Independence movement	Atlas
18	Africa	Ceuta and Melilla	125,000	Spain	Atlas
19	Africa	Canary islands	2,100,000	Spain	Wikipedia
20	Africa	Madeira	145,000	Portugal	Wikipedia
21	Americas	US Virgin islands	108,700	USA	Atlas
22	Americas	Anguilla	13,300	United Kingdom	Atlas
23	Americas	Aruba	106,000	Netherlands	CBS Aruba
24	Americas	British Virgin Islands	22,600	United Kingdom	Atlas
25	Americas	Bermuda	65,400	United Kingdom	Atlas
26	Americas	Cayman Islands	44,300	United Kingdom	Atlas
27	Americas	Greenland	2,166,086	Denmark	Atlas
28	Americas	Guadeloupe	448,700	France	Atlas
29	Americas	Martinique	432,900	France	Atlas
30	Americas	Netherlands Antilles	200,000	Netherlands	CBS Neth Ant.
31	Americas	Puerto Rico	3,917,000	USA	Atlas
32	Americas	Turks & Caicos	20,600	United Kingdom	Atlas
33	Americas	Falkland Islands	3,000	United Kingdom	Atlas
34	Americas	French Guyana	195,500	France	Atlas
		Total Population	16,180,886		

Some territories with a population larger than 1.5 million are included because they might display similar characteristics as other small territories.

Appendix D - Global Competitiveness Index 2009-2010

GCI Rank	Country	Market Size rank
1	Switzerland	36
2	United States	1
3	Singapore	39
4	Sweden	32
5	Denmark	49
6	Finland	53
7	Germany	5
8	Japan	3
9	Canada	14
10	Netherlands	18

GCI Rank	Country	Market Size Rank
26	Iceland	120
34	Cyprus	99
35	Estonia	94
44	Barbados	126
52	Malta	121
57	Mauritius	110
62	Montenegro	124
86	Trinidad & Tobago	102
91	Jamaica	100
102	Suriname	128
104	Guyana	84
107	Lesotho	127
126	Timor Leste	133

Appendix E – Business Competitiveness Index 2003

BCI Rank	Country	Market Size rank
1	Finland	53
2	United States	1
3	Sweden	32
4	Denmark	49
5	Germany	5
6	United Kingdom	6
7	Switzerland	36
8	Singapore	39
9	Netherlands	18
10	France	8

BCI Rank	Country	Market Size Rank
14	Iceland	120
28	Estonia	94
42	Malta	121
43	Mauritius	110
53	Trinidad & Tobago	102
56	Jamaica	100

Notes

ⁱ Hamel and Prahalad in “Competing for the future”.

1. “The wealth of a firm, and of each nation in which it operates, largely depends on its role in creating tomorrow’s markets and its ability to capture a disproportionate share of associated revenues and profits.” Which can be used for the development of its people.
2. “Each of these opportunities is inherently global. No single nation or region is likely to control all the technologies and skills required to turn these opportunities into reality.” Every nation has a chance, small states too.
3. “Investment commitments in the early stages of competition for the future may be quite modest; small as they may be, however, the emotional and intellectual commitment to the future needs to be near absolute.”
4. “[...] Given our unique portfolio of competencies, what opportunities are we uniquely positioned to exploit?”
5. “If a top management team cannot clearly articulate the five or six fundamental industry trends that most threaten its firm’s continued success, it is not in control of the firm’s destiny.” The same may be said of a nation.

ⁱⁱ WTO General Agreement on the Trade of Services

ⁱⁱⁱ Porter

^{iv} The World Bank

^v Is small really so ugly, Enrico Spaloare, Tufts University, World Trade Review

^{vi} Romer

^{vii} Indicators for the knowledge based economies

^{viii} Brainpower: Rewarding Knowledge Workers, Mercer, 2008

^{ix} Porter

^x Autor, Levy and Murnane 2003

^{xi} United Nations sources as found in Mongabay.

^{xii} Microeconomics is the study of decisions that people and businesses make regarding the allocation of resources and prices of goods and services. Macroeconomics, on the other hand, is the field of economics that studies the behavior of the economy as a whole and not just on specific companies, but entire industries and economies.

^{xiii} Building the Microeconomic Foundations of Prosperity: Findings from the Business Competitiveness Index, Porter, Michael, Harvard University

^{xiv} Porter

^{xv} The US Small Business Administration defines a small business as one with 500 employees or less. 99.7% of US businesses fall in that category.

^{xvi} Netherlands Antilles Central Bureau of Statistics, Business study 1998.

^{xvii} The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits, Prahalad, C.K.

^{xviii} Chan Kim, W and Mauborgne, Renee, Blue Ocean Strategy, 2005

^{xix} World Tourism Organization

^{xx} Caribbean Tourism Organization

^{xxi} Whereas travelers to the Caribbean might accept a Caribbean-like attitude, business clients of international financial services companies are not likely to do so.

^{xxii} Few Caribbean countries offering fund services have an active local financial market

^{xxiii} Netherlands Antilles Central Bureau of Statistics

^{xxiv} Vivian’s Nursery. www.viviansnursery.com

^{xxv} Carmabi. 12 Feb 2010. www.carmabi.org

^{xxvi} Leidinggeven aan kwaliteit in de dienstverlening op Curaçao : dividivi of flamboyant? Rubya Antonica Maduro, 2006

^{xxvii} ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, Paris 1996

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