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# Economic Globalization and Caribbean Economies: Competitive Developments, Strategic Response, and Performance

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# Economic Globalization and Caribbean Economies: Competitive Developments, Strategic Response, and Performance

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*Abstract: This study examines the effects of economic globalization on competitive situations of local firms in a small economy, the strategic responses of these firms to the competitive developments, and marketing and financial performance outcomes of these strategies. Findings indicate both beneficial and deleterious effects of economic globalization on domestic competitive situations. Findings also indicate variations in strategic responses and performance outcomes of local firms. Implications are presented along with recommendations for future research.*

Keywords: Economic Globalization, Strategic Response, Small Island Developing States, Performance

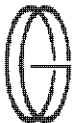
**F**OR FIRMS IN small economies, the phenomenon of economic globalization has a significantly different meaning than for firms in the large economies of North America, Western Europe, and Asia. Most of the firms in small economies face a different set of constraints in responding to competitive developments due to their size, location, resource endowments, market size, and managerial expertise. For these firms, as competitive pressures continue to increase due to economic globalization, the issues of understanding competitive developments, developing appropriate and effective strategies, and managing performance outcomes have become critically important.

Although international business scholars acknowledge the significance of small and mid-sized enterprises (SMEs) because of the roles they play in an economy, a review of the literature reveals that most of their attention and effort have been devoted to understanding the behavior of large firms from large developed economies. Recently, however, in response to calls for examining SMEs (Aulakh et al., 2000; Ramirez-Aleson and Espitia-Escuer, 2001), scholarly attention has shifted to understanding strategic actions and performance outcomes of SMEs (Chiao et al., 2006; Baird et al., 1994). While there now exists a growing body of research on SMEs from developed and developing economies, there still remains a group of SMEs that has not received much attention. These are the SMEs from very small economies.

The focus of existing studies on large developed and developing economies is understandable, given that firms from these economies have played a signi-

ficant role in promoting and shaping global trade and investments. However, most of the economies in the world are neither large nor developed. Global data indicates that, except for the few developed and developing economies, most of the economies in the world are small economies. And, among these small economies, measured by gross domestic product (GDP), some are considerably small, with GDP less than the annual revenue of a mid-sized company in a large developed economy such as the U.S. or Japan. For example, in the Caribbean, a majority of the island economies have GDP less than \$5 billion (see Table 1).

Firms in these very small island economies face two major issues related to economic globalization. First, they lack financial and managerial resources to compete with corporations from large developed or developing economies. Second, they operate in a market whose size does not yield opportunities to exploit either economies of scale or scope. For these firms, thus, the concern is more pressing and immediate: How to survive when competitive pressure keeps mounting due to economic globalization. As such, this paper focuses on three substantive questions: How has economic globalization affected the competitive environment for local firms in a small economy, how have local firms in this small economy responded to competitive threats coming from economic globalization, and what happened to their marketing and financial performance as a result of the strategies they implemented? This paper attempts to answer these questions with respect to Barbados, a small island Caribbean economy.



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**Table 1: The Caribbean Economies (2007)**

	<b>Population (Thousands)</b>	<b>GDP (US\$ Millions)</b>
<b>Antigua</b>	85.1	1,089.3
<b>Aruba</b>	103.9	3,704.1
<b>Bahamas</b>	331.3	6,586.0
<b>Barbados</b>	293.9	3,739.0
<b>Belize</b>	287.7	1,273.7
<b>Dominica</b>	67.4	310.7
<b>Grenada</b>	105.7	590.4
<b>Guyana</b>	737.9	1,076.6
<b>Jamaica</b>	2,713.8	11,322.0
<b>St. Kitts</b>	50.4	526.7
<b>St. Lucia</b>	164.9	958.1
<b>St. Vincent and the Grenadines</b>	120.4	558.9
<b>Suriname</b>	458.0	2,404.1
<b>Trinidad and Tobago</b>	1,333.3	20,608.2

Source: Euromonitor International Passport Markets <http://www.portal.euromonitor.com/>

By focusing on firms in a small economy, the paper's goal is to add to the existing research on economic globalization, strategy, and performance outcomes. Findings from this study have public policy and strategic implications. For example, at the government level, policy makers will learn how the business environment has changed locally and what policies they need to develop and implement in order to improve the competitive standing of local firms. At the firm level, executives will gain a better understanding not only of their own sector and markets but also of other sectors and markets. Findings will also illustrate the strategies that firms have employed to improve their competitive positions. This knowledge will be useful to local firms in developing strategies to develop internal capabilities and protect market positions.

To achieve the above research goals, this paper is divided into five sections. In the first section, issues related to economic globalization are covered. In the second section, the focus is on understanding recent developments in the economic situation of Barbados. In the third section, issues related to method such as sampling, questionnaire development, and data collection are covered. In the fourth section the competitive effects of economic globalization on Barbadian firms and their strategic responses and performance achievements are covered. In the last section, a summary of findings, implications, and directions for future research are presented.

## Economic Globalization

The World Bank reports that in recent years international trade has grown faster than world gross product and foreign direct investments have grown even faster than international trade. The sustained growth in the international flow of products and capital has created a highly integrated global economy. The integration of the global economy as a result of increasing trade and investments between countries is referred to as economic globalization (Akhter, 2004). Economic globalization has created both opportunities and threats in the marketplace. While firms can reach out of their domestic space in search of new markets, firms from other countries can also enter their markets looking for customers. This cross-border flow of goods and capital and the subsequent integration of the global economy have been the hallmark of recent economic globalization.

Several factors account for the growth in economic globalization including global market convergence of consumer needs and tastes, cost advantages achieved through standardization, global scope of competition, and governmental policies promoting international trade and investment (Johnson and Scholes, 2002). Economic globalization has reconfigured exchange relations between firms everywhere. For example, firms in developing economies have changed their roles from contract manufacturers of standardized components to competitors of finished products. As firms in South Korea, Taiwan, Singapore, and Hong Kong achieved production ex-

expertise and marketing know-how, they began to manufacture and market their own branded products. With comparable product quality at competitive prices, these firms entered the established markets of firms from developed economies and proved to be viable competitors. The success of East Asian countries resulted from the nexus of domestic policies they developed to create competitive markets; promote exports, education and technology; and encourage collaboration between governments and industry and among firms (Stiglitz, 1996).

What happened in the four above mentioned countries, two to three decades ago, is being repeated in BRICs--Brazil, Russia, India, and China. The BRICs entered the global competitive arena as ideal locations for outsourcing and offshoring. China with its low-wage, high quality workforce became a manufacturing powerhouse and India with its low-wage, high-skilled English speaking labor pool became a service center, specializing in software programming and back-office work. Firms in BRICs, like their East Asian predecessors, have moved up on the value chain and introduced their own branded products in the global marketplace, while continuing to build on the competencies that brought them to the global competitive arena. Having benefited from economic globalization, these firms are creating and exploiting new opportunities for market expansion and brand building in the global marketplace. Lenovo of China, for example, now owns IBM's Notebook, and Mahindra & Mahindra of India directly competes with American firms in the U.S. tractor business.

While economic globalization creates opportunities, it is evident that not all countries have been able to take advantage of these emerging opportunities. India, for example, has forged ahead, but Pakistan, its next door neighbor, has lagged behind. Furthermore, the countries discussed above are not representative of the diverse group of small economies in the world. Some of these small economies are very small, and, therefore, the dynamics of economic globalization affect them differently. Among these small economies is a group of countries that is known as Small Island Developing States (SIDS). These small economies present different challenges because of their history, size, and location. In the Foreword to a United Nations report, Carlos Fortin notes that "Globalization offers small island developing States (SIDS) valuable economic opportunities .... However, because of their intrinsic disadvantages, most SIDS will be unable to seize these opportunities" (United Nations, 2004). This view is shared by others, and it raises strategic questions about the effects of economic globalization on businesses in these economies that need to be explored: For example, what effects does economic globalization have on local firms in these small economies, how did the firms respond to these developments, and what did they achieve as a result of their strategic responses? This study focuses on one of these SIDS, Barbados, to understand the effects of economic globalization and the strategic response and achievements of Barbadian firms.

**Table 2: Barbados: Macro Economic Data**

	2002	2003	2004	2005	2006	2007
GDP (% real growth)	0.6	2.0	4.8	4.1	3.9	4.2
GDP (BB \$millions)	4,952.00	5,390.00	5,648.00	6,183.00	6,863.00	7,478.00
GDP (US \$millions)	2,476.10	2,695.00	2,824.00	3,091.50	3,431.50	3,739.00
Total Exports (US \$millions)	241.5	249.8	278.3	359.5	385.0	418.7
Total Imports (US \$millions)	1,070.80	1,195.30	1,413.00	1,604.50	1,586.10	1,709.50
Foreign Direct Investment Inflows (BB \$millions)	34.8	116.5	-24.2	124.0	72.0	
Foreign Direct Investment Inflows (US \$millions)	17.4	58.25	-12.1	159.0	36.0	

Source: Euromonitor International Passport Markets  
<http://www.portal.euromonitor.com/>

<b>Major export destinations</b>	<b>2007 Share (%)</b>
Latin America	61.7
Europe	23.8
North America	13.1
Australasia	0.8
Asia-Pacific	0.5
Africa and the Middle East	0.9
<b>Major import sources</b>	<b>2007 Share (%)</b>
Latin America	37.2
North America	34.2
Europe	18.6
Asia-Pacific	8.2
Australasia	1.4
Africa and the Middle East	0.4
Source: Euromonitor International Passport Markets <a href="http://www.portal.euromonitor.com/">http://www.portal.euromonitor.com/</a>	

### Barbadian Economy

With a per capita gross domestic product (GDP) of approximately \$12,722, Barbados is safely ensconced in the high income category. The World Bank lists countries with a per capita income of more than \$11,116 as high income countries (<http://web.world-bank.org>). From 2002 to 2007, Barbados posted positive growth in its GDP, increasing its GDP from \$2.5 billion in 2002 to \$3.7 billion in 2007 (see Table 2). It also increased its exports and imports. From 2002 to 2007, exports increased from \$241.5 million to \$418.7 million, imports from \$1.1 billion to \$1.7 billion. It also attracted foreign direct investments (FDI) with the inflow close to \$36 million in 2006 (see Table 2).

For Barbados, a small economy with a population of approximately 294,000, the above macroeconomic indicators paint an encouraging picture. However, the country faces some challenging business and marketing issues due to economic globalization. The economy is mainly reliant on tourism, which makes it vulnerable to shifts in consumer preferences for spending discretionary income. Other tourist destinations are also increasing their promotional budget to attract visitors, which could have a negative effect on the future earnings of Barbados. In its export sector, major exports consist of raw sugar and rum, the former accounting for 12.4% and the latter 10% of total exports in 2003 (United Nations, 2004). The major markets for its exports are concentrated in Latin America (61.7%), Europe (23.8%), and North America (13.1%). In contrast to the limited number of products exported, Barbados imports practically

everything, from basic necessities to luxury items. It runs a trade deficit of close to 35% of its GDP (see Table 2).

Given the size of their country, population, and economy, Barbadian firms find themselves unable to take advantage of scale and scope economies. This situation is true not only of Barbados, but also of other neighboring small island economies. The governments of these Caribbean countries, however, are taking steps to create a regional market that would not only expand the size of the market but also provide their firms with the experience they need to compete in today's highly competitive environment. Two initiatives are noteworthy. First, the formation of the Caribbean Community (CARICOM) of 15 member countries to reduce tariff barriers and bring the markets together, and, second, the attempt to create a single regional market, Caribbean Single Market Economy (CSME), with the goals of eliminating barriers to intraregional movement of goods and services, harmonizing standards, and taking other regional market integration enhancing measures. These initiatives will expand the size of the regional market to approximately 13 million people.

### Method

As this paper focuses on examining how local Barbadian firms perceived the effects of economic globalization on their competitive environments, what strategies they implemented in response, and what they achieved in terms of marketing and financial goals, it was considered appropriate to conduct qualitative research involving in-depth interviews. Field interviews and case studies are essential com-

ponents of qualitative research for developing theories (Gummesson, 2000; Summers, 2001) and are recommended when the available expertise on the subject is limited (Sinkovics et al., 2005). Qualitative methods are also appropriate at the early stage of research because they are conducive to obtaining reliable and in-depth information. In light of these considerations, a systematic process of data collection (Alam, 2005) through in-depth interviews was followed.

### **Sampling**

A list of local Barbadian firms in different sectors was developed in collaboration with the Barbados Investment Development Corporation (BIDC) and using the membership directory of Barbados Manufacturers' Association. The list included what in Barbados are considered small and medium enterprises (SMEs) and large scale enterprises (LSEs). From this list of approximately 435 firms, a subset of companies was developed, which excluded a large number of very small owner-manager run businesses. Twenty companies from the reduced list were contacted. Fourteen agreed to be interviewed. These firms represented different sectors of the economy, such as, food, garments, packaging materials, plastics, household chemicals, solar heating, after-market retail, crafts, maritime, and construction materials. The number of employees in these firms was as follows: three firms employed between 8 and 15; five firms between 50 and 100, four firms between 100 and 210, and one firm around 500 people. One of the firms did not indicate the number of employees. In the U.S., small firms are categorized as having less than 100 employees, and mid-sized firms as having between 100 and 500 employees. By this measure, the firms interviewed can be grouped under small or mid-sized enterprises.

### **Instrument**

A questionnaire, based on existing research on economic globalization, strategy, and performance, was developed to conduct the interview and collect data. Interviews with top executives from the fourteen sampled firms were conducted in their offices. Only one interview was conducted on the campus of the University of West Indies. The "elite interview" approach involving top executives was adopted to understand perceptions of decision makers and their views of competitive dynamics and strategy development (King, 1994). An interview protocol was used to maintain consistency in data collection and improve data reliability (Yin, 1994; McCracken, 1988). Before starting the interview, a brief introduction about the research project, researchers, and their affiliations was made. Following the introduction, a

partially structured approach was adopted to conduct the interview. This approach allows a more intensive study of perceptions and motivations, encouraging spontaneous rather than forced response from interviewees (Judd et al., 1991). Each interview lasted for about two hours.

### **Findings**

The findings presented below cover issues related to the perception of the competitive effects of economic globalization, strategic responses of firms to competitive developments, and marketing and financial performance outcomes. Following the findings, a discussion of public policy and strategic implications is presented. The overall goal of the following section is to aggregate the responses of the fourteen firms, rather than present the findings of each firm separately. This approach serves the important function of protecting the identity of the firm interviewed.

#### **Effects of Economic Globalization**

Three aspects of the effects of economic globalization were ascertained: changes in competitive intensity, competitive pressure, and uncertainty in the business environment. For firms in food, garments, packaging materials, plastics, chemicals, and solar heating sectors, both competitive intensity and pressure increased as more products entered the local markets, not only from the regional countries but also from "extra regional" sources. The growing number of imported products from countries with low labor cost and scale economies increased price pressure on local firms significantly. For most of the firms, uncertainty in the business environment increased due to increasing competition from economic globalization. The entry of foreign products and firms also brought about a change in consumers' behavior. They expected better service, lower price, and quality products. Executives noted that the conventional wisdom was that there was "no future in manufacturing" in Barbados.

For the firm in the craft sector, economic globalization did not impact competitive intensity and pressure much. In construction materials, economic globalization created more opportunities and did not impact competitive intensity or pressure much. In after market retail and maritime sectors, economic globalization had a favorable impact on competitive situations. The firms found that their market position actually improved due to domestic consolidation or expansion into foreign markets. As one of the executives noted, economic globalization did not have adverse effects because of the "dogged determination" of the firm to exploit emerging marketing opportunities internationally. For these firms, uncer-

tainty in the business environment also did not increase, but there were concerns about increasing uncertainty in consumer behavior in the future.

### **Strategic Response**

The success of SMEs depends on strategic responses to exploit opportunities and neutralize threats due to globalization (Porter, 1980). Based on two dimensions--pressures to globalize in the industry and competitive assets of local firms--Dawar and Frost (1999) developed a framework of strategic responses for small firms that compete against giants. They discuss four types of strategies: dodgers, defenders, contenders, and extenders. Dodgers focus on capitalizing specific links in the local value chain where their assets are still valuable. Defenders leverage their assets in local segments where multinationals are weak. Contenders upgrade capabilities and resources and compete with multinationals globally in niche markets. Extenders expand into global markets similar to their home base, exploiting competencies they have developed at home. These four strategic postures provide the framework for organizing the strategic responses of Barbadian firms to competitive developments due to economic globalization. In discussing the strategic responses of the firms, the dominant strategic orientations are covered.

**Dodgers and Defenders:** Firms in the food sector followed mostly dodgers and defenders strategies. The firms leveraged their relationships with retailers, providing them assistance and services that created entry barriers for others. These firms also created customer loyalty by brand building, new product development, and sales promotion. One of the firms in this sector used the extender strategy with some international involvements. In the garments sectors, firms used dodgers and defenders strategies, with emphasis on leveraging relationships. They also extended some of the value chain activities into neighboring countries and formed strategic alliances with firms in these countries. For these firms the major threat came from imports from China and neighboring countries. They saw their future in manufacturing as limited, but viewed a future in distribution as promising.

**Defenders:** Firms in chemicals, crafts, and maritime followed mostly a defender strategy, building on new product development, managing customer relationships, and moving up on the value chain. As in the case of the two sectors discussed above, some firms in these sectors also extended their business internationally by capitalizing on their competencies.

**Defenders and Extenders:** Firms in sectors such as packaging, plastics, solar heating, after-market retail, and construction materials followed both defenders and extenders strategies. These firms focused

on producing quality products in small batches for local markets, solidifying channel relationships, and extending their business through exporting, mainly in the Caribbean. One of the firms obtained ISO certification, and another firm responded to the challenges of economic globalization by implementing a series of strategic actions that focused on meeting the specific needs of its customer segments, improving customer service and data-based marketing, and expanding internationally.

### **Performance Outcomes**

Performance outcomes are the result of strategies that firms develop and implement. They reflect the degree to which firms have achieved their marketing and financial objectives (Cavusgil and Zou, 1994). With respect to this study, two types of performance metrics were covered, marketing and financial. In marketing, firms were asked to provide information on the following metrics: market share; customer satisfaction; customer acquisition, retention, and conversion; revenue from new products; and distribution penetration. In financial, the following metrics were covered: revenue, profitability, return on investment, return on assets, and cash flow. In discussing the results, the focus is on summarizing the information on metrics and providing an overall view.

**Marketing Metrics:** Of the four firms in the food sector, one firm saw its market share and revenue from new products go down. The other three achieved satisfactory or highly satisfactory performance on most of the marketing metrics. In the garments sector, one firm experienced declining performance in marketing metrics, while the other found the metrics steady. For the firm in the packaging sector, market share was stable with some gain in new customers. In the plastics sector, the results were mixed, with some metrics staying stable, some going up, and some going down. In the chemicals sector, the firm did well on all marketing metrics. In the solar heating sector, the firm experienced mixed results, with a few metrics such as customer acquisition, retention, and conversion up, while most others declined or remained stable. For firms in after-market retail and crafts, all metrics were satisfactory. The firm in the maritime sector did well in all marketing metrics. The firm in the construction materials sector did not provide any information on marketing metrics.

**Financial Metrics:** Of the four firms in the food sector, three achieved positive performance on all the financial metrics; one, however, would have liked to see better financial performance. In the garments sector, one firm experienced unsatisfactory financial performance, while the other achieved satisfactory results. In the packaging sector, all financial metrics

showed a slight improvement. In the plastics sector, the firm achieved satisfactory performance on all metrics. In the chemicals sector, the firm just broke even. In the solar heating sector, all metrics were very satisfactory. For the firms in after-market retail and craft, all financial metrics were good. The firm in the maritime sector did very well. The firm in the construction materials sector did not provide any information on financial metrics.

## **Conclusions and Implications**

This research focused on understanding the effects of economic globalization on local firms in a small island economy. The in-depth interview approach utilized in this study provided a richer understanding of the developments in the local business environment. Findings on competitive situations, strategic postures, and performance outcomes in this study parallel some of the findings in other studies on small firms. Implications of findings and research directions are discussed next.

### **Public Policy Implications**

Findings indicate both beneficial and deleterious consequences of economic globalization on financial and marketing performance of local firms. Although the government protects local businesses by continuing the policy of high tariff barriers, in recent years it also has taken steps to reduce some of these barriers. The general opinion among the executives interviewed, however, was that the current level of tariff barriers was adequate to protect local businesses and that the government should leave the barriers in place. The barriers that currently exist are the result of close collaboration between local firms and the government, and are partly based on the premise that price competition from imported products will adversely hurt local firms and, as such, the local employment situation. While this may be the case at the moment, these tariffs may eventually have to come down due to increasing international pressure. When they do, the local competitive dynamics will change. In reducing these barriers, policy makers, however, should not succumb to the pressure of dismantling them immediately but should bring them down slowly and steadily in sector after sector to give local businesses time to adjust to the changing competitive environment.

As manufacturing becomes less feasible in certain sectors especially textile and food, Barbados will need to begin thinking about deploying its resources to new and more promising alternatives. Its main competitive advantage resides in the tourism sector because of its location and history. In the future, this sector will also come under pressure as other countries begin to develop and promote their own tourist

spots. As a response, one of the alternatives that the executives mentioned frequently was the development of service sectors. This strategic move will open new doors and provide opportunities for utilizing the educated work force. Three service sectors that the executives mentioned as promising are financial, educational, and health sectors. Currently, the country has a competitive advantage in the educational sector in the region. This sector can be developed further to attract students and professionals from the other Caribbean islands and neighboring countries for education and professional training.

One of the characteristics of Barbados is that the domestic market is not sufficiently large to make it attractive for transnationals. The small market allows local producers to survive and be profitable in a protected market. The small size of the economy, coupled with a small population base, makes the market unsuitable for foreign firms to set up local production or distribution facilities. The country, however, remains an attractive destination for exports, because of its high per capita GDP, for firms both within the Caribbean and outside. Barbados is also taking steps to further integrate its markets regionally. This will have long-term favorable consequences both for local businesses and consumers. The creation of a large regional market will substantially increase the inflow of foreign direct investments, especially in the service sectors, and expand the size of the market.

### **Strategic Implications**

Although overall financial and marketing performance was viewed as acceptable, local Barbadian firms recognized their increasing vulnerability to competitive pressures not only from the BRICs but also from other Caribbean economies such as Trinidad & Tobago and Jamaica. Their vulnerability becomes more pronounced when seen in the light that the majority of the firms interviewed pursued either the dodgers or defenders strategies, and no firm followed a contender strategy. Their strategic focus was mainly on the domestic market, influenced by limited resources available to them and also by the need to respond to day-to-day business concerns. Not enjoying either economy of scale or scope, these firms felt constrained in what they could achieve strategically. Thus, from the resource based and comparative advantage perspectives, one of the viable strategic options for these firms would be the development of niche markets. However, firms need to note that meeting the needs of niche markets requires investments in marketing programs and brand building. The advantage of developing niche markets, however, is that it will allow local firms to leverage their



competencies and employ the available financial resources.

The firms employed different domestic oriented strategies to survive and thrive in the market. However, one element that was missing was a strategic marketing plan. The absence of a strategic marketing plan was not surprising, given that small firms, as other studies have shown, are mostly led by the intuition of owner/manager. Other studies have also shown that planning and control systems and procedures in small firms are either non-existent or incomprehensive or informal (Ahmadi and Helms, 1997; Martin and Staines, 1994). And because of time constraints small firms also tend to overlook the implementation of sound management principles (Cromie, 1991). Research, however, shows that as markets become more globalized, firms that invest in marketing can expect to do better than those that do not (Caves, 1996; Hennart, 1991). What these local firms, therefore, need is a more disciplined approach to marketing, incorporating the use of a strategic marketing plan. A key source of advantage for these firms is their closeness to the markets. This advantage can be leveraged further to consolidate market positions through strategic alliances with firms in the Caribbean. Knight (2000) recommends that SMEs, in responding to globalization, can benefit from adopting innovative marketing and differentiating their offerings with quality products.

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## Research Directions

This research fits into the body of research on economic globalization, providing input from the perspective of a small island economy. As a preliminary study in this area, this study raises several research questions that can be pursued to add to the growing literature on SIDS. The first question deals with regional market integration and the elimination of barriers. What impact will this have not only on Barbadian firms but also on other firms in the region? One of the expected outcomes of regional integration is the greater consolidation of businesses. Thus, how would greater integration of markets affect mergers and acquisitions in the region? The second question deals with the issue of promoting the service sector. One can expect greater involvement of foreign firms in this sector as it opens up. Two related issues in this regard are: which sector offers the most promising use of local resources and how would it affect local firms? The third question, from a global marketing perspective, deals with consumer behavior. Increasing international trade and investments exposes consumers to new ways of satisfying needs and wants. How has this exposure affected the meanings that consumers attach to products, symbols, and consumption experiences?

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