

# Towards Business Improvement: an analysis of the current economic context in Cuba

*Hacia la mejora empresarial: un análisis del contexto económico actual en Cuba*

*Baker Schesnel-Paul, sbakerpaul@yahoo.fr, <https://orcid.org/0000-0002-5758-1446>;  
Ricel Martinez-Martinez, risel.martinez9009@gmail.com, <https://orcid.org/0000-0002-4432-3333>;  
Javier Ernesto De la Fe-Noa, jdelafe@scu.copextel.com.cu, <https://orcid.org/0000-0002-5324-5381>*

*Universidad de Oriente, Santiago de Cuba, Cuba*

## Abstract

Updating the economic model in Cuba implies the need to boost the performance of economic actors in a context of international crisis, both for the state-owned company and for the rest and its improvement. Therefore, improvement is a Business Management System that through the integral management of its subsystems, will allow obtaining superior results in the technical-economic and social order, required for the recovery of the business sector. To effectively guarantee the transformation of these companies as a basic link in the economy, the design and implementation of a coherent, comprehensive and credible institutional system is required, in which clear "rules of the game" are established in the separation of state functions and business. The business management models in Cuba must be experienced in multiple ways that encourage innovative entrepreneurship with efficiency, effectiveness, competitiveness, and compliance with the social mandate.

**Keywords:** Business management; economic context; improvement.

## Resumen

Actualizar el modelo económico en Cuba implica la necesidad de impulsar el desempeño de los actores económicos en un contexto de crisis internacional, tanto para la empresa estatal como para el resto y su mejora. Por tanto, la mejora es un Sistema de Gestión Empresarial que a través de la gestión integral de sus subsistemas, permitirá obtener resultados superiores en el orden técnico-económico y social, requeridos para la recuperación del sector empresarial. Para garantizar efectivamente la transformación de estas empresas como eslabón básico de la economía, se requiere el diseño e implementación de un sistema institucional coherente, integral y creíble, en el que se establezcan claras "reglas de juego" en la separación de funciones estatales y negocio. Los modelos de gestión empresarial en Cuba deben ser vividos de múltiples formas que fomenten el emprendimiento innovador con eficiencia, eficacia, competitividad y cumplimiento del mandato social.

**Palabras clave:** Administración de Empresas; contexto económico; mejora.

## **Introduction**

For approximately 60 years, the issue of effective management and direction of the state company in Cuba has been one of the most discussed, controversial and in its entirety. Approached from different perspectives from the academic point of view and also with different conceptions of economic management, modified or taken up again in the course of all that time, it continues to be a kind of pending issue, but not for that reason a less pressing and challenging issue. Well, a task for the Cuban government that requires synergy and a lot of effort in the face of the development of the global or world business system. Especially at this time, the world is facing a financial crisis where the global economy is brought to its knees due to the coronavirus outbreak.

Business improvement is a process implemented in Cuba since 1987, starting at first only within the business system of the Ministry of the Revolutionary Armed Forces. As of the entry into force of Decree-Law 252/2007, this experience has been extended to the rest of the business universe. This process is aimed at increasing the levels of efficiency and productivity of business entities. The centers involved must respect a set of principles and procedures established in the General Bases of Business Improvement. The advantages that this process brings to the entities in which it is applied shows the need for its extension to the rest of the Cuban state companies to contribute to the economic development of the country. This would be a correct alternative to mitigate existing problems in areas such as agribusiness, tourism, export of services, import of fuels and investments.

Despite the rapid spread of the coronavirus outbreak in the Caribbean, the Cuban government with the closure of its borders after the crisis that the country is experiencing with the criminal blockade of the United States duplicates its efforts for a continuous improvement of Cuban companies. An economy that depends for the majority of services and tourism now relies on its workforces to keep daily activities alive and respond to this challenge. In terms of their response capacity, companies become machinery to produce and satisfy the population's demand. The article evaluates the institutional changes necessary for the improvement of the management of the state-owned company and the main challenges of the management and business management system, so that, in practice, it can be identified as the fundamental business form and the link basic of the economic system.

## **Theoretical foundation**

Business improvement is a process that seeks to raise productivity, efficiency and the standard of living of workers. To achieve this requires their active participation as a vital element, that these individuals expand their own profile and raise the level of their performance. The company must increase and diversify its production, in correspondence with the installed capacities, and reduce its costs. As a result of this process, some workers will be available with whom the pertinent solutions will be adopted, so that no one is left helpless. A comparative analysis of these documents (Díaz and Echevarría, 2009) indicates substantive changes in the principles and objectives of the process, as well as an increase in the subsystems, functions, prescriptions, normative base and documents to be prepared, all of this reflecting the conflict between the recentralization of the economy operated since 2004 and the original statements of Business Improvement.

From the author's perspective, one of the main directions to “perfect the improvement”, whose role in the search for greater effectiveness of the state-owned company that cannot fail to be recognized, lies in reconsidering two issues: standardized and detailed taxation of its content from outside the system to be improved, and the fact that it has been conceived through an approach oriented towards the functional subsystems of the company.

## **Methods**

In the analyzes and designs on the Business Direction and Management System (SDGE) in Cuba, the technical-productive and socio-technical approaches have predominated, within the business organization, but the socio-economic approach of the business system within the system has been insufficient. Economic and institutional of the country. In this research, a series of methods and tools were used to improve Cuban companies as an object of study and the priority it has for the economy in Cuba.

### **Theoretical Methods**

- Historical-Logical: to analyze the emergence, evolution and development of Business Improvement.
- Hypothetical-Deductive: to formulate the Hypothesis.
- Analytical-Synthetic: when reaching conclusions.

### **Empirical Methods**

Interviews: it was applied to workers and managers to carry out a preliminary diagnosis and obtain information about the deficiencies in the functioning of the Business Improvement systems.

Surveys: it was applied to the workers, to diagnose the current situation of the different systems implemented in the company.

### **Results and Discussion**

Business Improvement is a business management and direction system, whose main objective is to maximize the efficiency and competitiveness of the socialist state enterprise on the basis of granting it the necessary powers and attributions for proper administration, with an advanced conception in the business management as well as the policies, principles and procedures that promote the development of initiative, creativity and responsibility of all managers. It constitutes a process that is articulated on the basis of a business management and direction system, which aims to maximize the efficiency and competitiveness of the socialist state enterprise. For this, the necessary powers and functions are granted in order to achieve proper administration. This process is inspired by an advanced conception of business management as well as policies, principles and procedures that tend to the development of initiative, creativity and responsibility of all leaders and workers.

Among its fundamental requirements is an accounting that reflects the economic facts, since in these companies the accounting must offer a true image of the assets, the financial situation and the results. For this reason, the accounting information must meet certain minimum requirements such as identifiability, since the financial statements must clearly express the company to which they refer, the economic activity to which the company is engaged and the period of time to which they refer. ; And Opportunity because the accounting information must be offered to clients in a timely manner, since untimely information becomes useless.

Other fundamental requirements are the existence of a market for its products and services; and the guarantee of the necessary assurance.

The legal system usually sets deadlines for the presentation of the periodic financial statements.

1- Clarity: the accounting information must be shown in clear and affordable terms, in order to ensure, as far as possible, the proper use of it by its different recipients, who do not have to be specialists in the field. Accounting standardization substantially favors this requirement by generating uniform statements in terms of its structure, technology and preparation criteria.

2- Relevance: the accounting information must be adequate and sufficient so that it can be useful in achieving the purposes pursued by the different recipients of it.

3- Reasonableness: the accounting information must pursue a reasonable approximation of the economic and financial situation of the company.

4- Economist: accounting information is useful for the decision-making process, but at the same time obtaining it causes costs. The greater the disaggregation of the data, the higher the elaboration cost. In other words, the cost-benefit criterion must be taken into account.

5- Impartiality: the information contained in the financial statements must be neutral and impartial. You must not misrepresent the data in favor of certain recipients or for the benefit of others.

6- Objectivity: the accounting information must be prepared using a processing mechanism that prevents the introduction of subjective criteria by those responsible for the process. We can affirm that the accounting information is objective when several processors of the same accounting events, within the same information system and applying the same rules, can arrive at similar data.

7- Verifiability: the accounting information must be susceptible to control and review, both internal and external.

The experience of the implementation of business improvement in Cuba dates from 1987, being applied only within the business system of the Ministry of the Revolutionary Armed Forces. As a result of this practice, it was possible to verify an outstanding performance of the business management of the entities involved in terms of organization, discipline and economic efficiency, which is why the decision was made to extend it to the rest of the companies in the country. This determination was covered by Decree-Law No. 187 of August 18, 1998, which established its General Bases. From this moment on, it has been possible to verify that this system is the ideal instrument to achieve total and continuous progress in the ordering and management of economic organizations.

Based on the results obtained through the first ten years of application of the system, Decree-Law 252 was enacted on August 7, 2007, "On the continuity and strengthening of the Cuban Business Direction and Management System" that repeals the aforementioned normative act and establishes the legal regime of the process in question, in order to raise it to higher levels. This purpose has been achieved, so that in the face of the difficulties facing the Cuban economy today, improvement is a sure way to mitigate these negative effects. Therefore, the objective of this research is to argue the importance of business improvement in the current economic context, based on the advantages it offers.

*The business improvement process: General*

Business entities have been the scene of this continuous process, which demands from them the satisfactory fulfillment of their challenges and generates profound transformations. The analysis of the subject in question demands the concurrence of a multiplicity of terms that indicate where all these socioeconomic mutations actually occur and who are the creditors of the benefits they report. Thus, expressions such as: entities, business organizations and even the business universe are usually found in the literature. Certainly, the scope of these words includes superior business management organizations, companies and grassroots business units, all of which make up the business system.

The superior business management organizations constitute a group of companies and basic business units, which have their own legal personality and finance their expenses out of the administrative expenses of their entities, but they do not exercise state functions or administer production or services of this. Its constitution, transfer, merger or extinction is determined by the Ministry of Economy and Planning.

The same happens with companies with respect to this last aspect together with their own legal personality. In the hierarchical order, the companies are attached to a higher body of business management or another body or state agency. They also have autonomous economic, financial, organizational and contractual management, their financial balance is independent and they operate under the rule of the principle of self-financing. For their part, the base business units constitute structures with relative autonomy, lacking legal personality, their attributions are delegated and they function under the aforementioned principle. Its creation corresponds to the aforementioned higher institutions. The management structure of these forms of business organization can be unipersonal or collegiate. In the first case, it is made up of the General Director who formalizes his employment relationship through appointment by the corresponding People's Power

Assembly. This manager may be accompanied by a Deputy Director or General Coordinator and other directors. Collegiate bodies are created and regulated by the Director General in order to reconcile the internal decisions of the entity and have an auxiliary character. The considerations of its members are not binding on them, and are only binding with the approval of the Director General, thus demonstrating the validity of the principle of the leading role of cadres. There may be other bodies in these entities such as technical councils, quality councils and production councils.

In order to project the control of the State in business activity, Government Boards were created with the peculiarity that they only exist in superior management organizations and independent companies. These Boards are established and regulated by the Executive Committee of the Council of Ministers, despite the fact that this may delegate this function to the heads of the Central State Administration Bodies or to the Presidents of the Provincial Administration Councils. The action of this body is directed fundamentally to the control of the fulfillment of the plans and the budget and the distribution of profits, without being able to intervene in the productive management and services of economic organizations. These are made up of representatives of the Ministry of Economy and Planning, the Ministry of Finance and Prices, the Central Bank, the branch body and the entity's general director.

This process is not imposed by any higher body or body, but the decision to establish it is taken by the company itself that defines its management system, respecting the principles and procedures established in the General Bases of Business Improvement. These constitute the guide for business organizations to achieve the stated objectives. The application of the improvement is preceded by a set of stages that begin with the preparation of all the workers, the Workers Union, the Communist Party of Cuba and the Union of Young Communists of the company to begin the process, followed by the diagnosis initial business, the analysis of this diagnosis by the Government Group and the authorization to begin the studies. Subsequently, said study is carried out, the organization and system that the company will apply is evaluated and the file is prepared. The fifth phase corresponds to the approval of this document by the Government Group and the authorization of the beginning of the implementation. The designed system is then implemented, monitored and adjusted.

To develop this process, the interest of the managers of an economic organization and its workers is not enough, but it is required that they have adequate and orderly accounting,

that is, that it reflects the economic facts, the existence of the market and that they have guaranteed assurances. Once these requirements have been met, they will be certified by the Branch Ministry or the Provincial Administration Council, as appropriate. It is the Ministry of Finance and Prices that establishes how the procedure for the certification of accounting will be carried out due to the importance it has for the entities in improvement, as they demonstrate the economic reality of the same.

*Analysis of the Cuban business management model. Transformations and Implications*

It has been recognized that one of the most complex tasks is the process of transformation of the direction and management model of the state company, as it depends on the global transformations of the economy. However, one of the peculiarities of the updating process has been the priority given to the system of legal standards that must accompany the implementation of the Guidelines; in this direction, the main changes that have modified the decrees and regulations have been aimed at:

- Institutionally recognize the flexibility of the corporate purpose of companies. Consequently, in the 2014 plan directives, it was indicated the need to complete the process of updating the corporate purpose of the companies according to the approved schedule, in such a way that it allows them to act flexibly and exploit their potential and installed capacities in correspondence with the approved policy. .
- Repeal the provisions regarding the approval of the business plan by the management of the corresponding OACE or Territorial Administration Council. It is established that the plan is approved by the OSDE management.
- Define the state commission and the possibility of selling the surplus in the market.
- Repeal that the State is the owner of all business profits, so that up to 50 % of the profit after tax can be withheld by the business system.

Eliminate restrictions on the formation and application of payment systems for work performance.

- Change the types of reservations to be created by the business system.
- Create new legislation on economic contracting, according to Decree-Law No. 304 and Decree No. 310.
- Design the functioning of the organizational structure to conceive the company as a network of small and medium base business units.



- Establish decentralized levels of investment.
- Form decentralized prices according to their correlation with market prices.

The set of resolutions approved to boost the management of the state company is very positive; however, there is a set of external factors that hold back the short-term potential of such measures, such as:

- The exchange rate set for the state business system penalizes exports and stimulates imports.
- A high dependence on the flows of material and energy resources depending on the situation of the country's finances determines the criteria for administrative allocation based on global material balances, limiting the action of commercial monetary relations.
- The technological obsolescence accumulated during all these years affects business competitiveness.
- The insufficient and delayed comprehensive and local actions to give differentiated purchasing power to the salary earned in the state sector, while waiting for productivity to increase, as opposed to the flexibility for its increase in the private sector and the growth of income not labor pressure on effective demand.
- The limited possibilities for companies to carry out import and export activities according to their decentralized needs.
- The insufficient development of financial mechanisms for import substitution and the general operation of the company.

To the same extent that the above limitations are overcome and managerial autonomy and responsibility is guaranteed for state-owned companies, Guideline 17 (PCC, 2011) can be implemented in practice, which states that state-owned companies or cooperatives that show sustained losses in their financial balances, insufficient working capital, that cannot honor with their assets the obligations contracted or that obtain negative results in financial audits will be subjected to a liquidation process or may be transformed into other forms of non-state management, complying with what is established in this regard.

Before the entities with losses, it is proposed to establish and control a program for their elimination in an acceptable term in time. Once this period has concluded, the losses will not continue to be financed and the following will proceed to:

- 1- Design a debt restructuring program with the participation of creditors, sectoral organizations that attend to business activity and the Governing Board.
- 2- Replace the board of directors.
- 3- Develop a business restructuring process and liquidate the entity when it is socially advisable.

In this way, one of the main objections to the efficient operation of the state company would begin to change, which is the assessment that in said entities

The public entrepreneur, that is, the managers, bureaucrats or technicians who are entrusted with the State companies, know that nothing ever happens there: win or lose, succeed or fail as such, the company has no survival problems. The State will come whenever necessary to feed its coffers and to wipe its deficits (Gaspar, 1980, p. 25).

#### *Importance of business improvement given current economic conditions*

Undoubtedly, business improvement is a process that requires transformations, stability and a rise in the indicators that mark the proper functioning of business entities, but at the same time brings considerable benefits. The most significant advantages are given by the autonomy with which it gives these institutions, legitimizing them to determine their own structures and templates. This facilitates the adoption of an internal organization that satisfies the real interests of the companies, as well as the hiring of suitable workforce. Workers must respect the indications emanating from the management systems of these entities, which when designed by them allow the use of more effective methods to achieve the strategic objectives that they independently determine.

The formation of their own business plans is another of the prerogatives that improvement offers as a result of the independent status in which it places companies. This shows the importance of planning in this process and ensures the relevance of the transactions that are proposed to be carried out. In addition, these entities are empowered to define and set salaries, which motivates the increase in the level of productivity that will be proportional to remuneration and guarantees the validity of the constitutional precept "according to their capacity, to each according to their work", this being one of the principles that govern improvement. Under this process, business entities will be able to create their reserve and stimulus funds, in order to prevent bankruptcy as a manifestation of patrimonial insolvency and to encourage workers by rewarding their efforts when

necessary. Business institutions may establish their own quality management systems that guarantee the success of their work.

The advantages that this process provides to the business universe are not only projected within each company, but it also strengthens inter-company ties, thus enhancing coordination relationships. This is manifested through contracting that broadens the content of the financial and non-equity relationships, their incidence within and abroad of these entities and their basis in relation to the fulfillment of the plans and associated with the market. The principle of autonomy of the will is strengthened, granting greater freedom to these legal persons in their agreement and modification. In addition, business initiative is reinforced in optimizing the use of resources and productive reserves, which contributes to the development of the sphere in which the entity operates and to the economic development of the country.

The autonomy also extends to the financial aspect, authorizing to allocate part of the profits to finance the material stimulation that generates greater productivity, the formation of reserves, development and reinvestment, as essential aspects to continue showing that condition. It is beneficial for business entities that the recording and classification of all economic operations is done on the basis of decision-making, planning and control. This means that determinations are not made regardless of the economic conditions of each entity, avoid possible deficiencies and carry out an entire audit task that periodically evaluates the results obtained. Decentralized price formation is also beneficial.

Obviously, the Cuban business system has been favored with all the advantages provided by the improvement process, from which a wide range of opportunities have emerged that are impossible to achieve without getting involved. The situation exhibited by the Cuban economy today shows the need for business entities to initiate and implement improvement as an alternative to contribute to the economic development of the country. This being the case, the merit of this process would be multiplied, especially when the low agro industrial yield as a result of the combination of rain and drought that has been present in the country have negatively influenced the results of the harvest. Regarding tourism, the number of visitors has grown, which is positive in terms of income, but requires greater tension for the necessary insurance to guarantee it.

The total value of the export of services is expected to decrease, this index will be influenced by the reduction of contracts that exist with the Brazilian government due to

the political situation in that country and the contraction in the collection of services provided to Venezuela product of its economic situation. The difficulties in the economic order that this country presents have caused problems related to the import of fuels. Although the purchase prices were lower than the previous year, there was a decrease in delivery by PDVSA. The strong devaluation that the Venezuelan Bolívar is suffering also has a negative impact on the exchange relations with Cuba. It is forecast that there will be decreases of -8,7 % in mining, affected by the low prices in the international market; -5,7 % in the fishing activity and -0,4 % in the manufacturing industry, as they lack the availability of sufficient financial resources.

However, a favorable business climate in third countries can be seen in the context of the gradual normalization of relations with the United States with the arrival of the new President Joe Biden, which shows a favorable manifestation for the Cuban economy, even without substantial modifications of the economic blockade against Cuba. Faced with these vicissitudes facing the Cuban economy, it has been decided to reduce the investments to be made in the year, concentrating around 70 % of this figure to support strategic sectors in the country's development. An increase in the salary of the business sector is also expected to a planned level and monetary unification for the year 2021.

The current depression that the Cuban economy is suffering underpins the importance of improvement, so that if all or the vast majority of the entities that make up the business system implemented the process and maintained this condition afterwards, they would alleviate the economic burden. Among the strengths that improvement has and that could contribute to this purpose are some of its principles such as: self-financing that allows companies to cover their expenses with their income and generate profits, which will be used after taxes have been paid. to the creation of reserves, this being another of the principles to be observed.

In addition, the creation of its own business plans and the expansion of contracting facilitate the obtaining of income or services necessary for the optimal performance of the activities that constitute its corporate purpose, without requiring financial support from the State to develop them. Added to this is the design of its own management systems, as well as the registration and classification of all economic operations based on decision-making, planning and control; that contribute to ensuring that the guidelines issued are aimed at achieving these economic results.

In this way, the government would not have to allocate millionaire amounts to finance the expenses of the business system, which according to the principles of improvement is the fundamental link of the economy. It could reserve them, in the planning of the budget, to cover the expenses that would originate the acquisition of the necessary resources to sustain the increasing visits of tourists in Cuba, the imports of food products, the purchase of oil from safer suppliers and face the effects in mining, fishing and manufacturing with solid monetary support, as well as the deficiencies that the country suffers due to the blockade still maintained by the United States.

Another benefit, already mentioned, that improvement provides to business entities is the possibility of defining and fixing wages, in harmony with the principle that prescribes that collective stimulation will be carried out in correspondence with the efficiency obtained in the company and its contribution to the national economy this facility would avoid the reduction of the average salary of the business sector. All the advantages outlined above would prevent the reduction of investments, would eliminate the imperative need to resort to public debt bonds, would strengthen the strategic sectors in the development of the country and would conspire against the existence of the budget deficit.

In short, a guide for each company to tailor its true suit, considering its own conditions, not a straitjacket. But the sustained results, and only these, should be the demonstration that the company has improved its management and a rapid response to the imbalance in the world economy that is aggravated by the Covid-19.

Those results cover 5 directions that include the following aspects:

- Human capital: its capacity, performance, commitment and development in so many individuals.
- The organization itself: capacities to learn, to change, to work as a team and manage its processes, to increase its operational effectiveness.
- Clients: the value proposition to the client and the management of relations with them, as well as their satisfaction, increase and retention.
- Finance: financial and economic efficiency indicators derived from its operational effectiveness and its customer orientation.
- Society: environmental, socio-political, legal and territorial issues.

Those expected results, in turn, must be characterized by qualities such as:

- **Balanced:** it is not about standing out in one direction to the detriment of the others. The five dimensions mentioned are relevant and interdependent and neglect or failure in one will lead to diminishing results in the rest.
- **Durable:** the sustainability of the results over time must be ensured, and not only achieve short-term successes, usually due to conjuncture factors and not to the effective and consistent interaction between the organization's subsystems and, in turn, with the environment.

In the current context, business improvement in Cuba, invested with the necessary autonomy and under the contextual conditions mentioned, corresponds to the responsibility of achieving and sustaining a company in constant learning, customer-oriented, which manages its operations through a network of processes, with consistent self-regulation and effectively shapes their interaction with the changing environment based on the previously mentioned results.

## Conclusions

*1- The business improvement process allows the establishment in the entities that make up the Cuban business universe of a direction and management system that manages to raise productivity and efficiency levels at work. To start it, they must meet basic requirements that ensure the competitiveness of the business organization to go through all the other stages and maintain the condition achieved afterwards. This supposes an action that respects the principles endorsed in the General Bases of Business Improvement.*

*2- In the perspective of supporting the economy in the midst of the humanitarian crisis caused by the covid-19 pandemic, although it leaves the Cuban economy suffering due to the blockade of the United States. Propose a process that currently exhibits significant achievements that encourage the recognition of its advantages, especially when the Cuban economy presents difficulties that impede the full economic development of the country. This situation increases the importance of improvement as an alternative to mitigate, and even eliminate some shortcomings that derive from the current tense economic context.*

*3- In the current context of transformations of the Cuban economic model and the implementation of the corresponding changes, a reformulation of the Business Direction and Management System endorsed in DL 252 and 281 will be*

*necessary in which original principles that were abandoned or diluted are recovered , its exhaustive content and functional approach are substantially reduced and, as the case may be, business administration issues such as those discussed here are updated, expanded or incorporated as references to be considered for management.*

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