

Sustaining “Lilliputs” in the Global Knowledge-Based Economy: Prospects for Micro, Small, and Medium-Scale Enterprises in the Developing World

By Maria Divina Gracia Z. Roldan¹

Abstract

Micro, small, and medium-scale enterprises (MSMEs) comprise bulk of business entities in the developing world. Their contribution is seen in terms of employment generation and capital formation. Seen as the engine of growth in present knowledge-based economies, MSMEs play a crucial role in the economic sustainability of Asian developing countries. This paper discusses the role of MSMEs in Asia, with the Philippines as a case in point. It examines issues and challenges these enterprises face, as well as, their role and impact in developing the Philippine economy and human capital. It explores mechanisms of European linking and assistance to the Philippine MSME sector. The paper posits that a supportive policy environment is necessary for these enterprises to achieve their potential for sustainable growth in a global knowledge-based economy.

Keywords: Sustainability, micro, small & medium-scale enterprises, knowledge-based economy, European linking mechanisms

1. MSMEs in Asian Developing Countries

MSMEs play a significant role in Asia. They are touted as the backbone of Asian economies, accounting for 98% of all enterprises and 66% of the national labor force on average during 2007–2012. Their contribution to the region’s economy is notable with 38% of Asia’s gross domestic product and 30% of its total export values coming from MSMEs on average during the same period. They are also part of the global supply chain, mobilizing domestic demand and promoting international trade. (Asia SME Finance, 2014). They are key to achieving long-term sustainable economic growth in the region.

Industry promotion for MSMEs had been viewed as a vital development strategy to spur economic growth. Governments particularly in Asia continue this policy tack on the basis that small industry promotion helps distribute income and stimulate domestic enterprises with wide regional dispersal. Studies have been made on the promotion of small and medium-scale manufacturing industries in some Asian countries, emphasizing the need to develop further support for human resource, technological capability, financial and marketing development (Hooley & Ahmad, 1990; Tecson, 1989).

Policy areas to support MSME growth have been identified in the Asia Pacific region; namely, enhancing management performance through education; reducing barriers to trade and compliance costs; improving capital markets and access to them; and strengthening linkages (e.g., through e-commerce) to assist business within the region .

2. The Knowledge-based Economy in Perspective

In recent years, the growth of knowledge-intensive sectors have gained significant

| ¹De La Salle University, Manila, Philippines

attention as they become more crucial to competitiveness. The importance of knowledge-based activities to competitiveness is driven by a number of mutually reinforcing trends such as: (1) the growth of information and communication technologies; (2) increased speed of scientific and technological advances and their diffusion; and (4) the growing awareness of the value of specialized knowledge embedded in organizational processes.

Moreover, the knowledge-based economy has presented challenges to the conduct of business and government policy. Competitiveness in such an economy entails building capabilities in: (1) knowledge creation, which requires a world class science system and a culture of entrepreneurship and innovativeness; (2) knowledge diffusion through greater inter-firm cooperation, greater flexibility in organizational systems, effective use of information technologies, appropriate infrastructure to facilitate such flows, building effective public-private technology partnerships; and (3) education and skills enhancement of the workforce through formal, informal, and on-the-job training as a skilled workforce is critical to any economy's success in creating and diffusing knowledge.

What is distinctive about the knowledge economy is that human capital is a key element of value in an enterprise. Information and knowledge is an important resource that can be shared and has a multiplier effect when incorporated into systems and processes in the business. Knowledge-enhanced products or services can also command price premiums. Globalization, information, networking and connectivity are the main driving forces in a global knowledge economy that change the rules of business and national competitiveness. (Skyrme, 1997).

The new economy brings about knowledge-based businesses whose competitive advantage lies in coming up with "smart" products and services. This posits a new paradigm in which businesses become educators and consumers turn into lifelong learners (Davis and Botkin, 2000). The value-added in increasing the learning capacities of people using technologies, "smart" products and services spell the success of these enterprises. Attendant to this is the notion that the private sector, more than government or the public sector, would eventually be at the forefront of learning institutional systems. (Davis & Botkin, 1994).

The key questions posed in this study are: (1) What issues and challenges do MSMEs in the developing world, particularly in the Philippines, face in seeking sustainability in a global knowledge-based economy? (2) What interventions are needed for their sustainable growth?

The study is carried out through documentary analysis of industry papers, government policies, and reports. This supplements a previous interview of key informants from the Philippine Department of Trade and Industry, information technology (IT) associations, and MSME entrepreneurs to obtain data regarding policy initiatives and issues concerning MSMEs in the IT sector.

3. MSMEs in the Philippines

In the Philippines, MSMEs are defined by asset size based on Republic Act No. 9178, otherwise known as the Barangay Micro Business Enterprise (BMBE) Act of 2002. Microenterprises are those with assets of up to 3 million pesos, small enterprises with assets from 3-15 million pesos, medium enterprises with assets of 15-100 million pesos.

As of 2012, there are 940,886 MSMEs in the Philippines comprising 99.5% of all registered business in the Philippines. Of the total number of MSMEs, 89.78% (844,764) are micro enterprises, 9.78% (92,027) are small enterprises, and 0.44% (4,095) are medium enterprises. MSMEs generated a total of 4,930,851 jobs in 2012 compared to 2,658,740 for the large enterprises; approximately 64.97% of the total jobs generated by all types of business establishments that year. They are in wholesale and retail trade, manufacturing, accommodation and food services, education, and other service activities. (DTI MSME Statistics, 2014).

To strengthen and encourage the growth of MSMEs in the Philippines, The Micro, Small, and Medium Enterprise Development (MSMED) Plan 2011-2016 was developed. The plan serves as the framework for the convergence of initiatives adopted and implemented by multi-stakeholders towards the growth and development of the MSME sector in the country. It has four major outcome or result portfolios, namely Business Environment (BE), Access to Finance (A2F), Access to Markets (A2M), and Productivity and Efficiency (P&E). It will also take into consideration global themes and cross-cutting issues related to gender, climate change, corporate social responsibility, and migration. Key targets set in the plan are to create 2 million new and sustainable jobs by 2016 and to raise the economic contribution of MSMEs to 40% of total gross value added by 2016. (Philippine Department of Trade and Industry, 2012)

4. Issues & Challenges of MSMEs in the Philippines

While the policy framework has been put in place, its concrete translation into effective programs that benefit MSMEs need to be given flesh. The problems and issues that MSMEs face center on these major interrelated areas:

4.1 Financing, capitalization, and incentive

MSMEs suffer from lack of financing facilities especially for those in the information technology (IT) industry. Microfinancing programs by government financial institutions, prioritize agriculture over IT. Real property is mostly the acceptable collateral for loans, which is why some enterprises who do not have this kind of assets have difficulty obtaining capitalization through start-up loans. Brainpower, which is what MSMEs in the IT sector possess, is not recognized and accepted as collateral by banking institutions.

Relatedly, MSMEs hardly enjoy IT investment incentive programs extended by government whose beneficiaries are mainly big companies and investors. Apparently, it is easier (in terms of monitoring and significant results) for government agencies to target bigger companies as their investments are more visible, have presumably higher yield, and have more economic impact. MSMEs mostly find that quick and soft financing resources are lacking and documentary and equity requirements are cumbersome. These also pose as hindrances in availing capital.

4.2 Market access and demand

A challenge for MSMEs in the Philippines is how to access and increase the demand for regard is lacking except for invitations to participate in some government-sponsored trade fairs and their products and services from both domestic and foreign markets. Sectoral assistance in this exhibits. MSMEs usually address this concern on markets by relying on informal networks, and individual advertising or promotional schemes. Other factors for low demand may come into play here such as, limitations on domestic market size, lack of awareness or appreciation of products and services offered, and limitations to MSMEs' capability to use IT applications, among others.

4.3 Infrastructure and facilities

Low bandwidth connections and expensive high-speed internet access are constraints to MSMEs which are dependent on these facilities. This points to limitations in government-initiated infrastructure. Certification facilities also need to be made available to regions outside of the Philippine National Capital Region to help upgrade the technical competencies of MSMEs.

Another type of facility needed is that of business resource and training centers such as, MSME service, information, and entrepreneurial stations to serve as venue for transacting business,

conducting seminars and meetings, marketing and registration.

4.4 Training and education

MSMEs, especially those engaged in IT products and services, need to be updated with emerging technologies to sharpen their competitiveness and to seize opportunities for developing their own niche. Training is also needed in entrepreneurship and management. A good grasp of business processes, for example, is essential for MSMEs to have a broader perspective of their own needs and those of their clients. Links with business consultants need to be strengthened to address problem areas (e.g. in personnel management, finance, marketing, inventory control). Training on how to develop quality business proposals is likewise needed in order to obtain joint venture capital.

Included here is the need for training on internationally-accepted ISO standards, anti-piracy laws, intellectual property rights, and laws concerning business operations. MSMEs lack protection under the law when not registered as legitimate enterprises. Lack of knowledge on industry rates also lead to payments especially by foreign clients below accepted standards.

The measures needed to address these concerns entail parallel efforts by industry and government. This can be achieved only when there is increased dialogue and coordination by both sectors. Obstacles to this partly spring from the existing orientation and assumptions of both government and the private sector. The gap in interactions may be bridged through regular consultations and dialogue to forge closer partnerships in promoting MSMEs.

Being represented in advisory bodies is also key to make the voice of MSMEs heard in policy formulation. Advocating for government support, linkaging with academe and industry, and international partners for training and product or service development can benefit the MSMEs in the long run. Steps have already been made in this direction, which need to be sustained.

5. European Linkaging and Assistance Mechanisms

The EU is the Philippines' largest investment partner and 4th largest trading partner of the Philippines, accounting for 30 % of total FDI stock (€7.6 billion in 2012) and 11% of its total trade in goods (€10.8 billion in 2013). EU exports to the Philippines rose to €5.7 billion and imports were totaled €5.1 billion in 2014. There are efforts to promote European-Philippine linkages as global production networks and supply chains continue to rise.

The European Union -Asia Information Technology and Communications (EU-Asia ITC) Programme is one of the mechanisms aimed to foster direct cooperation between Europe and Asia in the field of information and communication technology (ICT), focusing specifically on small and medium-sized enterprises in the search for compatible ICT solutions and standards. With a program funding of 35 million euros, it was launched in 1999 to help fund initiatives in partner countries in the areas of agriculture, education, environment, e-governance, health and transport. Its objective is to provide support "to better serve the ICT needs of local communities and citizens, and provide an input into sustainable development." (EU-Asia ITC Programme, n.d.).

The EU-Philippine Business Network (EU-EPBN) is another assistance mechanism implemented by a consortium of European Chambers of Commerce based in the Philippines. Established in 2014, its objective is to engage leaders in business and government to advance EU-Philippines trade and investment policies, and to provide a support framework for European companies, and especially SMEs interested in investing in the Philippines.

6. Conclusion

MSMEs significantly contribute to the economy in terms of employment and revenues. Taxes (i.e., in the form of business permits) is a major source of local government earnings. Registered MSMEs' tax compliance is quite high. If supported and harnessed well, they can also be top earners for the country. What they need is government support and assistance from other sources for special financing and incentive schemes and an aggressive link-up with markets and joint venture capitalists.

MSMEs, especially those in the IT industry, also impact on human capital by contributing to knowledge creation and diffusion. MSMEs thrive on technical skills of its people and these are passed on to apprentices and trainees. They infuse technical know-how on actual business operations. In the case of internet cafes, for instance, they could very well serve as knowledge transmitters by incorporating educational modules (e.g., software tutorials) into the services they offer.

European assistance mechanisms are noted which are aimed to spur the growth of not only Philippine MSMEs but European MSMEs, as well. Said mechanisms are seen to benefit both European and Philippine enterprises through linking and complementation.

The prospects for MSMEs growth in the Philippines are good if the needed support is there. They are quick to see opportunity; but unless the policy environment is improved, they will not be able to achieve and sustain their potential as important players in the global knowledge-based economy. They have the potential for serving as agents for knowledge diffusion, especially those in the IT sector, through the products and services they offer to the public clientele. Aside from internal constraints and weaknesses, the ability to innovate and to be flexible in view of the changing external environment is crucial to their growth and survival.

Before government-led programs can be drawn up specifically for MSMEs, an inquiry into cultural orientations may be helpful to see what facilitates or hinders engagement for partnerships. This could entail a look at differences in orientations, assumptions, and values of MSMEs, government, and international partner organizations. Future research can also be made on measurements for MSME contribution to learning systems. Case studies may be done of MSME successes and pitfalls, and their coping mechanisms in a highly-competitive international business environment. Such studies can contribute to a better appreciation of MSMEs with the assistance of European organizations in participating in global knowledge-based economy.

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