

Challenges of Small and Medium Enterprise towards Progress

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ABSTRACT

The major concern of this study is to identify the challenges of small and medium enterprises towards progress in Pulo in the City of Cabuyao, Laguna, Philippines as assessed by the business owner- respondents. By understanding their challenges, it is expected to improve the competitiveness of SMEs, and that eventually, they will grow and expand their businesses. When it comes to the nature of the business, the service type is the most commonly used by the medium enterprise business-owners with the least capitalization of 11,000 and up and with a capacity of 11 years of business operations. They all agreed that they encounter some difficulties in availing funds because of lots of requirements in loan applications for business. They are also amenable to growing stiff

competition that arises among the unregistered enterprises because of much cheaper offered products to the market. In this case, some SMEs have failed to compete with the micro-businesses. They all disagree on the perception that the focus on giving support is intended only for micro-enterprises, same as the LGU for the insufficient fund to support in promoting more the SME sector.

Keywords— Small and medium enterprises, progress, challenges, descriptive, Philippines

INTRODUCTION

Small and medium enterprises (SMEs) are considered the engines of growth in developing countries. In developed countries, SMEs have historically played a vital role in creating jobs, spurring innovations, and creating new products, thus contributed to economic vitality and growth. Emezie (2014) stated that small and medium enterprises in both advanced and developing countries cover a heterogeneous group of production units of diverse size, organization, managerial capacity, and technological level and sophistication. While in the advanced countries, they tend to be homogeneous (varying mainly in terms of firm size and technology), and in the Third World, they are characterized by the coexistence of both very small craft-type enterprises in the informal economy and small and medium businesses in the organized sectors. Their sophistication in terms of the level of organization and management and technological capabilities is largely affected by the stage of development and level of industrialization of a country. It is generally believed that at the early stages of development, small enterprises are predominantly craft-based, located mainly in rural areas to respond to local demand. At higher stages of development, these enterprises grow into or are replaced by modern small businesses with larger market potential and better quality of products; while at the most advanced level of development (the case of the advanced countries), the small enterprises are generally replaced by medium and large ones to reap the benefits of economies of scale.

Small and medium enterprises (SMEs) have gained increasing recognition in national and international discussions. In the Philippines, its importance paved the way for the passage of two major laws that govern the promotion of SMEs: Republic Act (RA) 6977 or the Magna Carta for Small Enterprises, as amended by RA 8289, and RA 9178, better known as the Barangay Micro Business Enterprises (BMBEs) Act of 2002.

The crucial role in the growth of the Philippine economy is discussed by Leano (2006). Accordingly, the Philippine government has embarked upon a comprehensive and integrated strategy for the sustainable growth and development of SMEs in the country. The Philippine strategy encompasses all critical factors – like technology, product development, finance, training, and marketing. Admittedly from the Bureau of Small and Medium Enterprise Development of the Department of Trade and Industry, the Philippine government has consistently extended support to SMEs by creating an enabling environment for them to realize their full potential in the blueprint for national development.

The role of SMEs in the Philippines is not limited to the simple creation of wealth or capital. These enterprises are also vital in correcting regional disparity by introducing new industries in the countryside and stimulating the local labor market. SMEs are more likely to be labor-intensive and thus provide jobs to wherever these are located. In this sense, they bring more balanced growth of the regional economy and equity in income distribution (Watanabe et al., 2015). The characteristics of SMEs in the Philippines are not different from other countries. In small businesses, they employ one or more functional supervisors who take care of production, sales, or finance. The owner-manager is not actively engaged in production but performs tasks related to the direction and leadership of the output without help from specialized staff. It is not rare that the supervisor is also the business owner. A small firm also owns multi-functional technical tools and equipment operated by workers with basic technical skills. In most cases, there is a single product line produced in small quantities (Watanabe et al., 2015).

There are different reasons why, in some countries, SMEs and entrepreneurship development are on a higher or lesser level of development. The most important factors influencing performance include enterprise size and age. They are more important than strategy and the owner's entrepreneurial characteristics. The number of employees is important for the activity and performance of managers and companies; more research is needed before reaching final conclusions (Lussier & Sonfield, 2015).

Business failure, like business creation, is a part of a dynamic, healthy market. In the EU (European University), most bankruptcies are caused by late payments or other objective problems, i.e., by honest failures without any fraud attempted by the entrepreneur (European Commission, 2013). In addition, second starters are more successful and survive longer than average start-ups; they grow faster and employ more workers (Stam et al., 2015).

Digital technologies have become cheaper and more accessible and they change the communication and marketing practices, as well as the interaction

with the marketplace. These changes diminish the barriers of SMEs to adopt new technologies and enhance their strategic position in the global marketplace (Stankovska et al., 2016). In contrast, little has been done to examine the underperformance factors of newly established SMEs.

Philippine businesses are categorized by asset size and by the number of employees. The small and medium enterprises (SMEs) refer to any business activity/enterprise engaged in industry, agri-business/services, whether single proprietorship, cooperative, partnership, or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity’s office, plant, and equipment are situated. They must have value falling under the following categories:

By asset size:

- Small: P3, 000, 000 – P15, 000, 000
- Medium: P 15,000,001 – 100,000,000

By number of employees:

- Small: 10- 99 employees
- Medium: 100-199 employees

In Cabuyao, Laguna, this metropolis known as the “Enterprise City” in Laguna has now opened its Negosyo Center (NC). This 59th business hub put up by the Department of Trade and Industry (DTI) in the Calabarzon region comprises the provinces of Cavite, Laguna, Batangas, Rizal, and Quezon.

Mia Angeline Cortez, public information officer of DTI Calabarzon, told the Philippine News Agency on Wednesday here that the Negosyo Center is now housed at the 3rd Floor of the Cabuyao Retail Plaza following the trade department’s partnership agreement with the city government over the weekend.

This city’s Negosyo Center is the 12th one-stop-shop business center established in Laguna after Pagsanjan, Binan City, Los Banos, Santa Rosa City, Calamba City, Victoria, San Pedro City, San Pablo City, Santa Maria, Alaminos and Santa Cruz.

DTI Calabarzon Regional Director Marilou Toledo said they are very happy with the full support and cooperation of Cabuyao “To our programs as our way to develop SMEs and generate employment”. For her part, DTI Laguna Director Susan Palo said Cabuyao has the biggest Negosyo Center office in Laguna so far, “having complete facilities such as training room and reception area.” (Radyo Natin, 2017).

Cabuyao and DTI officials are now engaging the current and aspiring entrepreneurs to visit the Center and know more about the available services and training programs. The establishment of Negosyo Center is prescribed under the “Go Negosyo Law” or Republic Act 10644, which mandates the creation of these centers in all provinces, cities, and municipalities. Negosyo Center serves as one-stop-shop offering services for micro, small and medium entrepreneurs, including the facilitation requirements and ease of doing business and in accessing information essential for SMEs growth. Some Negosyo Center services include accepting and facilitating all new registration and renewal application of SMEs, including an application for Barangay Micro Business Enterprise (BMBE), assisting MSMEs in meeting regulatory requirements to start and maintain the business, providing information and services in training, financing, marketing, and other areas as may be required by SMEs and facilitating access to grants and other forms of financial assistance.

FRAMEWORK

Finance Gap Theory

The finance gap theory, as postulated by Bolton (1971), states that the components-knowledge gap and supply gap are the two sets of challenges faced by SMEs. Bolton points out that SMEs lack knowledge about available sources of external finance and that once these are determined, SMEs have trouble satisfying the loan requirements from the external financier. Furthermore, external financiers do not understand the entrepreneur and their small and their small business venturing. This means that the only possible way that SMEs can raise capital is through personal savings, friends, and family members. Additionally, since both their venture capital and sales value are small compared to operating costs, they face challenges in maintaining the business resulting in the eventual collapse of the SMEs.

Resource Dependency Theory

The central premise of the resource dependency theory by Salancik and Pfeffer (1978) is the relationship between a firm and set stakeholders in the business environment. Nevertheless, the focus is on the firm’s ability to access resources from other stakeholders in the business environment and describes how resource scarcities force firms to pursue new innovations that use alternative resources. The theory further postulates that SMEs’ survival depends on the firm’s ability

to acquire and retain resources from stakeholders within the task environment (Dunn, 2008). The theory suggests that firms must aim to reduce or increase their level of dependency on other external actors through alliance and joint ventures. In addition, the theory can be interpreted to explain how SMEs might pursue direct and indirect markets of internationalization to reduce exposure to home markets, which may be undesirable due to high market saturation, production costs and instead focus on other more attractive national markets (Guo & Acar, 2005).

The input block includes the business profile such as the nature of the business, capitalization, years of operation, and business structure. It also indicates the challenges encountered contributory to progress of SMEs in terms of access to finance, connectivity to markets and conformance to standards, and enabling business environment. Also contained are the problems encountered in coping challenges towards the progress of their business and remedial measures that should be undertaken by the SMEs.

Under the process block, it represents the tools to attain the results of the study, like data analysis on business profile and assessed challenges. The researchers used the survey questionnaire, which was distributed to SMEs business-owner respondents for data collection, analysis, and organization.

The study covered the challenges encountered by the SME business owner-respondents as these will be contributory towards the progress of SMEs in their business-like in a particular barangay wherein business operations.

OBJECTIVES OF THE STUDY

The purpose of this study is to identify the challenges of small and medium enterprises towards progress in Barangay Pulo in the City of Cabuyao, Laguna, as assessed by the business owner-respondents. By understanding their challenges, it is expected to improve the competitiveness of SMEs and that eventually, they will grow and expand their businesses.

METHODOLOGY

Research Design

The study focused on the challenges of SMEs towards progress in Barangay Pulo, City of Cabuyao, Laguna, Philippines. The researchers used the descriptive method of research to assess the challenges of SMEs. The quantitative research method entails collecting data from the participants of the study through surveys,

experiments, and quasi-experiments. The method of analysis of data is by using statistical techniques. Quantitative research methods offer reliable information as it involves the use of a large sample which enhances the reliability of the results generated.

Population Sampling and Sampling Techniques

The population of the study consisted of 10 Medium Enterprises and 28 Small Enterprises at Pulo, City of Cabuyao Laguna. The researchers considered purposive sampling as the best technique to select the respondents, which included owners and managers of SMEs. Purposive sampling involves selecting respondents in regards to their position in the target population. In this case, the target populations are the managers or owners of the organization since they have the details of the challenges they are facing that hinder progress or growth of their business. The sampling method is to be considered as it satisfies the inclusion criteria of the participation process. The sample is obtained from the list of registered SMEs from the Business Process Licensing Office of the City Government of Cabuyao (2018).

Instrumentation and Validation

In order to gain insights into the construction of the questionnaire, the researchers read methods of research books to gain insights into the preparation of questionnaires, and also theses and dissertations to see how questionnaires are constructed.

The questionnaire constructed in this study was based on the insights from the study conducted by Emezie (2017) and also from the Manufacturing Summit (2016). There are two sets of questionnaires, one is structured questionnaires to be used for interviews, and the other one is the survey questionnaire to be answered by the respondents.

After the questionnaire was constructed, it was presented to the experts for correction for validation of the instrument. The researchers also conducted pre-surveys to the respondents. Their suggestions for the improvement of the questionnaire were incorporated in the questionnaires. After incorporating the desired changes, the questionnaire was given to the language editor for editing. Those who participated in the validation of the questionnaire were excluded from the final respondents of the study.

Data Gathering Procedure

The researchers made a self-structured questionnaire to be utilized for statistical computation, analysis, and interpretation of data. This study was conducted in the City of Cabuyao, Laguna, involving the SMEs.

Statistical Treatment of Data

Percentage and frequency distribution were used to describe the business profile of the selected SME owner- respondents of the study in terms of nature of the business, capitalization, years of operation, and business structure.

Since the options to the items of the questionnaire were assigned points, the weighted mean was viewed as the best measure for a central tendency.

The options to the items of the questionnaires were interpreted as follows with the corresponding intervals.

RESULTS AND DISCUSSION

According to Shaughnessy and Zechmeister (2014), tables provide a more precise description of the results, and figures make it easier to see trends or patterns in the data. The highest and least figures or findings of the study are normally highlighted in the textual interpretation. Data from these tables are integrated into the textual discussion.

Table 1. Nature of Business of the SMEs Owners

Nature of Business	Frequency	Percentage	Rank
Service Type	10	59%	1
Merchandising	6	36%	2
Manufacturing	1	5%	3
TOTAL	17	100%	

Shown in table 1 are the results on the different types of business for which the service type achieved at a frequency of 10 with 59% as ranked 1; while the lowest frequency attained is the manufacturing type of business which 5% as ranked 3. This simply means that the service type of business is the most in-demand and considered as an alternative source of income.

Table 2. On Business Structure

Business Structure	Frequency	Percentage	Rank
Small	7	41%	2
Medium	10	59%	1
TOTAL	17	100%	

As reflected in table 2, it showed that Medium Business Structure got a frequency of 10 with 59%, which ranked 1. The result implies that most of the enterprises started progressing their business from small to medium until such time it becomes bigger.

Table 3. Capitalization

Capitalization	Frequency	Percentage	Rank
11,000-20,005,500	16	90%	1
20,005,501-40,000,000	1	10%	2
TOTAL	17	100%	

Table 3 manifested that majority of the business capitalization had ranged from 11,000 to 20,005,500 with the frequency of 16 with 90% as ranked the Only one who got a capitalization of more than 20,005,501 with 10% as ranked 2. This only indicates that the majority of the business capitalization belongs to the medium enterprises.

Table 4. Years of Operation

Years of Operation	Frequency	Percentage	Rank
1-11	10	59%	1
12-23	6	35%	2
24-35	0		
36-47	0		
48-59	1	6%	3
TOTAL	17	100%	

For the above table on years of operation, it shows that the most number of years of operation is 1-11 years with a frequency of 10 with 59% ranked 1. This

simply means that majority of the businesses which belong to medium enterprise has reached the peak of their operations in 10 years time.

Table 5. Access to Finance

Access to Finance	Weighted Mean	Interpretation
1. Funds are available, but SMEs find these difficult to access because of stringent and voluminous requirements as well as the slow processing time for their loan applications.	2.76	Agree
2. SMEs find it difficult to borrow funds from banks because of collateral requirements.	2.35	Agree
3. SMEs find the minimum loan requirement and short repayment period restrictive.	2.35	Agree
4. SMEs in several regions do not have capacity for financial management.	2.06	Agree
Over-all Mean	2.38	Agree

Legend: 3.50-4.00 Strongly Agree; 2.50 -3.49 Agree 1.50-2.00 Disagree; 1.49-Below Strongly Disagree

With regard to the challenges of SMEs in terms of access to finance, the business-owner respondents gave their points of views that the highest weighted mean achieved of 2.76, which was verbally interpreted as agree_falls under the indicator which states that “Funds are available, but SMEs find this difficult to access because of stringent and voluminous requirements as well as the slow processing time for their loan applications.” On the other side, the least weighted mean attained of 2.06 with a verbal interpretation of agree states the indicator that “SMEs in several regions do not have the capacity for financial management.” Therefore the over-all weighted mean result is 2.38, which was verbally interpreted as agree. This signifies that although there are available funds to support their business, they find it hard to comply with all of the requirements in the loan application.

Table 6. Connectivity to Markets

Connectivity to Markets	Weighted Mean	Interpretation
1. SMEs are not proactive in seeking markets and responding to market needs.	2.00	Disagree
2. Stiff competition from unregistered enterprises and cheap imports are eroding the SMEs market share.	2.65	Agree
3. Most SMEs do not have access to market hubs where their products could be displayed or sold.	2.18	Agree
4. SMEs have limited capacity for product development and design.	2.18	Agree
Over-all Mean	2.25	Agree

Legend: 3.50-4.00 Strongly Agree; 2.50 -3.49 Agree 1.50-2.00 Disagree; 1.49-Below Strongly Disagree

Based on the assessments of SME business-owner respondents, the grand mean achieved was 2.25 with a verbal interpretation of agree. The highest weighted mean got of 2.65 with a verbal interpretation of agreeing falls on the indicator “Stiff competition from unregistered enterprise and cheap imports are eroding the SMEs market share.” On the other hand, the lowest weighted mean was 2.00 on the indicator which stated that “SMEs are not proactive in seeking markets and responding market need,” and this was verbally interpreted as disagree. This result connotes that the SMEs owners are facing great competition and conflicts with unregistered enterprises because their less expensive products serve as obstacles to the success or growth of the SME owners.

This idea is suggested by Samar (2011) that SMEs contribute to setting new design trends, developing contemporary products, and bringing them to the marketplace ahead of the competition. They become channels for innovation to develop indigenous or appropriate technology, which may be developed into a pioneering technological breakthrough. The SMEs are agents for an effective increase of the value-added in final goods that are processed and marketed by large manufacturing firms.

Table 7. Enabling Business Environment

Enabling Business Environment	Weighted Mean	Interpretation
1. There is inadequate support for start-up enterprises.	2.06	Disagree
2. Business development is too focused on micro enterprise development with little attention, given the concerns of small and medium enterprises.	2.24	Disagree
3. LGUs lack of capacity to support and promote the SME sector.	2.24	Disagree
4. People are not entrepreneurial and prefer to be employed instead of putting up their own business	2.18	Disagree
Over-all Mean	2.18	Disagree

Legend: 3.50-4.00 Strongly Agree; 2.50 -3.49 Agree 1.50-2.00 Disagree; 1.49-Below Strongly Disagree

As to the assessment of the business-owner respondents in terms of enabling business environment, the overall mean of 2.18 was achieved with a verbal interpretation of disagree. There appeared the tie results of 2.24 with both verbal interpretations of disagreeing to the indicators like “Business development is too focused on micro enterprise development with little attention given the concerns of small and medium enterprise” and “LGUs lack of capacity to support and promote the SME sectors.” On the other hand, the least mean obtained was 2.06, which was verbally interpreted as disagree in the indicator “There is inadequate support to start-up enterprise.”

This can be a good indication that small and medium enterprises are aware of the support given by the LGUs, and they are agreeable that most of the people in Barangay Pulo are positive to be ready to engage themselves in business.

As stated by Laylo (2018) that major developments on SME, specifically on social enterprises, were revisited and analyzed. It also looked into how they sustained, supported, and nurtured the Philippines’s overall economic landscape. Extensive data were collected from relevant agencies in public and private sectors, after which they were analyzed parallel to existing literature, i.e., theories, model, and concepts. This emphasizes the BMBE Act (Barangay Micro Business Enterprise) that encourages the formation and growth of BMBE by granting them incentives and other benefits such as exemption from income tax, exemption from the minimum wage.

The Go Negosyo Act promotes doing business and facilitates access to services for MSMEs through the Negosyo Centers. The Philippine Business Registry that their system allows sole proprietorship to register their business names with DTI. And last is the environmental compliance of business operations that provides the guide for SMEs to adopt appropriate waste disposal and a lot of environmental measures, and compliance remains the issue.

CONCLUSIONS

Based on the findings summarized, the researchers arrived at the following conclusions: (1) that when it comes to the nature of the business, the service type is the most commonly used by the medium enterprise business-owners with the least capitalization of 11,000 and up and with a capacity of 11 years of business operations. (2) that is based on the assessments of the SMEs business-owner respondents.

They all agreed that they encounter some difficulties in availing funds because of lots of requirements in loan applications for business. They are also amenable to growing stiff competition that arises among the unregistered enterprises because of much cheaper offered products to the market. In this case, some SMEs have failed to compete with the micro-businesses. They all disagree on the perception that the focus on giving support is intended only for micro-enterprises, same as the LGU for the insufficient fund to support in promoting more the SME sector.

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