

Developing Small Enterprises and Their Human Resources as Crisis Recovery Measures

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Introduction

Is the Philippine economy on the road to recovery from the domino effect of the global financial crisis?

Based on newspaper reports, the global economy is "exiting the downturn." The Philippines is one of the countries hit by the crisis but there are indications that the Philippines is on the stage of rebound. It is forecasted to grow at 3.5 percent in 2010, while the collective growth rate for the five ASEAN countries is projected at 4.7 percent in 2010 (Romero 2010). Government planners at the National Economic and Development Authority (NEDA) are likewise optimistic and forecast a growth of 4 percent in the year of the tiger (from a very low 0.9 percent growth in 2009). However, analysts from the University of the Philippines School of Economics disagree, preferring to maintain a modest outlook while on the lookout for developments in the US.

What will drive the economy towards recovery? This paper posits the scenario that the small enterprises and their human resources are the saviors in this time of crisis, along with the millions of workers still deployed abroad and continue to remit billions of dollars.

Developing enterprises and their human capital are necessary for the rapid growth of the economy. Human resource development involves training the workforce to acquire new knowledge, skills, competencies and attitudinal changes for their professional and personal use.

In recent years, various government policies and programs on Philippine trade and industry have geared towards building up business entities that are small-sized. This is due to the fact that the Philippine enterprise

system has predominantly become informal and small in scale, greatly outnumbering the formal and large establishments. The capability for employment generation is the primary reason for government's accelerated support for small enterprises.

This paper delineates the factors attributed to the vulnerability of the Philippine economy and the impact of the global financial crisis on trade, industries and employment. The significance of the small and informal entrepreneurs in uplifting the economy and the support provided by government are presented. This macro level discussion is based on data obtained from previous studies done on the subject matter.

Impact of the crisis on Philippine trade, industries and employment

The Philippines is one of the many countries in Asia affected by the 2008 global financial crunch. Some multinational companies based in the Philippines either shut down, transferred to other countries where labor cost is cheaper, or resorted to mass lay-offs. Thousands of overseas Filipino workers returned home because factories closed shop.

The Philippine economy's vulnerability to the recession is attributed to foreign investments, debts, and dependence on exports, particularly its dependence on the US market which continues to be our top export and investment partner. Therefore, whatever takes place in the US will have a severe impact on domestic shores. In September 2008, Ibon Foundation made the following forecast (Pinoy Press, 2008):

"Drops in US consumption and investments will be deeply felt as the largest part of Philippine exports directly or indirectly goes to the US. Around 20% of foreign investment in the country comes from the US. Further, some 20% of exports already directly go to the US but a large part of exports to Japan, China, Hong Kong, South Korea, Taiwan and Malaysia which take up another 50% of exports, are actually components for assembly into products whose final destination is still the US. Slower growth in third party countries (such as South and East Asian markets) that depend on the US and which the Philippines deals with will also have adverse effects on Philippine exports manufacturing."

In an assessment made by Yap, Cuenca and Reyes (2009), there are indicators pointing to the impact of the crisis, based on the fourth quarter

2008 and first quarter 2009 national accounts. One such indicator was that the GDP growth was only 1.7 percent in the combined fourth quarter of 2008 and first two quarters of 2009, after averaging 5.7 percent in the last three years. There was also a fall in personal consumption expenditures and fixed investment in 2008 after surging in 2007. On the production side, significant decreases were recorded in manufacturing, electricity, gas and water, trade and finance services. There was a 29.2 percent contraction in exports, particularly electronics and furniture during the period monitored. The food industry was able to offset the contraction in the aforementioned sectors (Yap, Cuenca and Reyes 2009).

With regards to the labor situation, unemployment rate surged to 7.7 percent in the first quarter of 2009. The April 2009 survey showed that while 2.4 million jobs were created, nearly a million full-time jobs were lost. There was a significant rise in the separation rate or termination rate in the manufacturing sector. As Yap, et. al. affirms, "this is consistent with the observation that the manufacturing sector experienced the sharpest downturn in the aftermath of the crisis" (8).

Given the abovementioned facts and figures, how can the Philippines recover from the economic slowdown?

Developing the small enterprises and human resources

The significance of small enterprises in recovering from the crisis

Based on available figures from the National Statistics Office (NSO), small enterprises comprise more than 90 percent of total establishments. Together with the informal sector, the small enterprises are the generators of employment. The large establishments comprise less than 10 percent. The wholesale/retail trade, services, hotel and restaurant industries have increased in number while manufacturing is declining. Real estate posted significant increase starting 2000.

To better understand the phenomenal growth of small enterprises, it is important to first define the term. There are definitions based on assets, others on size or number of workers, as contained in various laws. Government agencies such as the NSO and Department of Trade and Industry (DTI) which are monitoring these enterprises likewise

have their own parameters in qualifying an enterprise as small or large. Notwithstanding the variations in definition, small enterprises are regarded as the engines of Philippine economy due to their significant contribution to national employment, gross domestic product and gross national product. In this paper, small enterprises refer to registered or documented establishments with less than 20 workers.

The rise in the number of small enterprises beginning in early 1990 may be attributed to the expansion and intensification of policies and programs that characterized the industrial era of the 1990s. It was during this period that market access, financing, entrepreneurship programs, and exports were reinforced as contained in the Magna Carta for Small Enterprises. By the year 2000, large establishments contracted in number while small establishments ballooned to more than 90 percent.

With regards to the workforce, small enterprises employed almost 3 million workers (this figure excludes the informal workers). While a survey conducted by Tolentino (2007) in selected cities in Mindanao in 2006 showed the capability of SMEs to generate short-term employment. Most of the respondents from Mindanao were found to be new in their jobs, having been at work for less than 12 months and neither covered by employment contracts nor workers' benefits .

Many workers in small enterprises do not receive minimum wage, a "privilege" to employers granted by RA 9178 which grants enterprises with assets of less than P3 million fiscal and non-fiscal incentives and income tax exemption including exemption from coverage of the minimum wage law. Salary rates vary because the minimum wage rates vary per region, per type of industry, and with the size of the establishment.

In the 2006 Mindanao survey, the average gross monthly income of small enterprise workers was placed at P4,874. Most of the respondents in the survey received amounts below the minimum wage, which explains the P3,000 mode in income. Those who received above the minimum wage (i.e., P5,000 monthly or above) were either with their establishments long enough, or were holding supervisory positions.

Moreover, there are a large number of unpaid workers in small establishments. Only an estimated 65 percent of the employees are reported as paid. The rest are unpaid—presumably, relatives or house helpers—compensated through non-wage provisions such as housing,

meals and allowances. While not compensating family members may save some expenses, this is not a good long-term practice because it fails to account for all the costs of producing and selling a product or service.

Developing human resources in some alternative industries

In world competitiveness rankings, the Philippines scores generally low. Thus, it is necessary to take urgent and serious steps in developing our human resources in sectors where we can create niches to improve the performance of Philippine enterprises. With an aggregate labor force of 37 million as of 2008, human resources are the country's greatest asset. In industries, "human resources are just as important as physical and financial resources. But measuring the value of human resources is difficult because it is hard to use standard and traditional measures such as fixed and liquid assets" (Gilley and Eggland 1992, 5). In enterprises, one measure that management considers when determining the importance of human resources is the cost of replacing valuable employees—for example, the cost of recruiting, hiring, relocating, lost productivity, training, and orientation. Another measure is the knowledge, competencies, skills, and attitudes of the members of an organization. This means well-trained, highly skilled and knowledgeable workers are more valuable to enterprises than those who are not. This value is ultimately reflected in increased productivity, efficiency, and competitiveness.

There are few industries where the Philippines shows competitiveness. In what other industries should we develop the future human capital?

Many emerging industries are service-oriented and are concerned with environmental protection in the light of climate change which is already alarming governments all over the world. In the Philippines, these may be considered as alternatives to the manufacturing industries which have declined since the late 1990s.

Moreover, to survive the impact of the global recession it is necessary to focus our attention in advancing the knowledge and skills of the workforce in the following alternative industries: wellness, medical tourism, herbal medication, organic farming and recycling industry, among others.

From the point of view NEDA, business process outsourcing, sustained exportation and robust remittance inflows would drive economic growth in 2010 (BusinessWorld, 2010). The Philippine Exporters Confederation

also makes an optimistic prediction. They expect a strong demand from key markets and a 10 percent growth in 2010. This is despite the warning of UP economist and former budget secretary Benjamin Diokno that “given the persistence of structural weakness, exports growth may not be able to sustain the momentum” witnessed in December 2009 and beyond. He added that demand from US and other export partners “will remain sluggish” (Nepomuceno 2010, 3).

Social partnership: Support from government agencies and private industry associations

There are varying assessments and forecasts on the future state of the Philippine trade and industries. But the government chooses to be proactive. As an emergency response to the slowdown, the government allocated a P330 billion fiscal package named Economic Resiliency Plan (ERP) to stimulate the economy through government spending, tax cuts and public-private partnership projects. Among the objectives of ERP are to enhance competitiveness of enterprises, ensure low and stable prices to support consumer spending, save and create jobs, and protect workers in export industries (Yap, et al. 2009)

Other government agencies and committees such as the Department of Labor and Employment (DOLE), National Competitiveness Council (NCC) and DTI were mobilized to speed up their support to small entrepreneurs.

To ensure the competitiveness of Philippine industries the NCC, a public-private task force, was created by virtue of Presidential Executive Order No. 571. The NCC focuses on human resource development, better management, infrastructure building, and regulating the cost of energy, among others (De Leon 2007).

Changes in the labor market are some of the consequences of global recession. To deal with these changes the government through the DOLE designed programs to assist workers displaced or threatened with termination. Among the services include (a) “Pagpapayo” or counseling for possible re-entry or shift to other employment, (b) “Pangnegosasyon” or negotiation and legal services to ensure that unpaid salaries, benefits and other claims are collected, and (c) “Panghanapbuhay” or employment services to reconnect workers to productive employment (Yap, et al. 2009).

Another agency, the DTI, offers entrepreneurs various services from registration to product designing and marketing. The DTI currently has the most number of organizations in its directory with an estimated 133 business organizations from the food industry, services and information technology sectors. These private sector business organizations offer services including training of personnel. Studies show that industry associations are effective because of the homogeneity of their membership. Members share common problems and goals.

Summary and conclusion

The impact of the crisis to the Philippine economy was demonstrated by the sudden fall in the GDP rate compared to previous periods; drop in personal consumption expenditures and fixed investment; the decline in manufacturing and other industries; and the contraction of exports. At the labor front, unemployment rose in the last quarter of 2008 and during the first half of 2009. Despite the 2.4 million jobs created, nearly a million full-time jobs were lost.

The small enterprises sector was recognized as important in reinvigorating the economy because it comprises more than 90 percent of total establishments in the Philippines. Together with the informal sector, these enterprises generate employment and contribute significantly to the GDP and GNP.

To further overcome the effects of global recession, Philippine enterprises should look into emerging industries as viable alternatives to develop our future human capital. It is necessary to take urgent and serious steps in nurturing our human resources in sectors where we can create niches to improve enterprise productivity and manpower competencies. These sectors include the biofuel industry, organic agriculture, herbal medication, and the business process outsourcing. Fortunately, there are government agencies and industry associations that lend support to small enterprises, including the micros, cooperatives, and informal entrepreneurs. These sectors should maximize the opportunities offered by these agencies.

Notes

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