What factors affect the business success of Philippine SMEs in the food sector?

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The business success of firms depends on their resources and legitimacy, as suggested by the resource-based and institutional theories. Several researchers (Lumpkin and Dess 1996; Chrisman et al. 1998; Baum et al. 2001) suggested that the success of an organization is complex and is affected by various factors such as the firm’s resources, capabilities, and the environment (Figure 1). Business success, according to Flapper et al. (1996), is the attainment of the objectives and goals of an organization and is measured by its performance.

The study, from which this Policy Note was culled, used a conceptual framework that combined resource-based theory and institutional theory to predict business success (Figure 1). According to the resource-based view, the resources and capabilities of the firm (i.e., the entrepreneur’s/manager’s level of education, previous work experience, and age; marketing capability; and network capability) affect business success and variations in their performance (Wernerfelt 1984; Galbreath 2005). Resources, in this context, are defined as “stocks of available factors that are owned or controlled by the firm” (Amit and Schoemaker 1993, p. 35). These resources should be valuable, rare, perfectly inimitable, and nonsubstitutable in order for firms to gain competitive advantage (Rumelt 1987; Barney 1991; Peteraf 1993). Coupled with strategic decisions (Wernerfelt 1984; Gibicus and Kemp 2003), these resources also increase the firm’s ability to generate profit (Wernerfelt 1984; Amit and Schoemaker 1993).

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According to Barney (1991), resources become valuable if they contribute to the effectiveness and efficiency of the firm’s operations; rare if they are unique or specific to the firm; inimitable if other firms cannot easily copy the resource because of its causal ambiguity, social complexity, or distinctive historical condition; and nonsubstitutable if they are difficult to be replaced.

The firm environment is also a factor critical to business success because the firm’s resources are always affected by the institutional environment, economic system, and industrial structure (Dunning 1981). Sustained competitive advantage is also affected by the dynamics of the firm environment (Silvio 2010). One dimension of the environment considered in this study is environmental dynamism, which refers to random changes in the environment that cause uncertainty (Dess and Beard 1984). This negatively affects business success because uncertainty causes information deficit, which may lead to erroneous managerial decisions (Rosenbusch et al. 2007).

This study also considered the age and size of the firm, which are explained from the standpoint of the institutional theory. This theory asserts that firms will imitate other firms due to isomorphic pressures that force a firm to imitate other firms under the same environmental set-up (DiMaggio and Powell 1983). Thus, isomorphic pressures lead to legitimacy (Dacin 1997), which aids the firm in getting environmental resources and social support (DiMaggio and Powell 1983). As firms
grow in age and size, they strive to attain legitimacy that helps organizations succeed (Meyer and Rowan 1977; Carroll and Hannan 1989; Baum and Oliver 1991).

In the Philippines, small enterprises are those with 10–99 employees or have a total asset value of PHP 3–15 million. Medium enterprises, meanwhile, are businesses with 100–199 employees or have a total asset value of PHP 15–100 million (DTI 2008).

This Policy Note discusses the success factors of small and medium enterprises (SMEs), particularly the food manufacturing and food service sector. It also provides implications on how SMEs can be assisted to achieve business success and, therefore, enhance their capacity to engage in international trade.

Data collection and methodology
A total of 233 small and medium food enterprises from various parts of the country (National Capital Region: Manila, Quezon City, Caloocan, Pasay, Pasig, Makati, Mandaluyong, Marikina, Valenzuela, Muntinlupa, Parañaque, Las Piñas, Malabon, Navotas, Taguig, and San Juan; MIMAROPA: Palawan; Bicol Region: Sorsogon and Camarines Sur; Central Luzon: Pampanga, Nueva Ecija, and Bulacan; Ilocos Region; CALABARZON: Cavite, Laguna, Rizal, and Batangas; SOCCSKSARGEN: Cotabato, General Santos, and Sultan Kudarat; and Davao City) participated in the study. Convenience sampling, which is a method of getting data from samples that are readily available (Sekaran 2003), was used, and the survey was conducted through online method or face-to-face interviews using a structured questionnaire. Business success was used as the dependent variable and was quantitatively and qualitatively assessed. The qualitative measure, which was modified from Venkatraman (1989), evaluated the satisfaction or dissatisfaction level of the owners or managers on their firm’s profitability and growth. Quantitative measures used in this study were payback period and net income growth. The independent variables include: (1) level of education, previous work experience, and age of the owner or manager; (2) marketing and network capability; (3) environmental dynamism; and (4) age and size of the firm.

A two-step structural equation modeling procedure was also conducted to test the hypotheses. A confirmation factor analysis measurement model was first created to assess model adequacy followed by the analysis of the structural regression models.

Results
The study shows that both marketing and network capabilities positively affect business success. They contribute to the firm’s competitive advantage and business success because they are deeply embedded in the organization, which makes them rare, inimitable, and immobile. This finding is consistent with results of previous studies (Reed and De Fillippi 1990; Amit and Schoemaker 1993; Day 1994; Makadok 2001; Helfat and Peteraf 2003).
Marketing capability involves knowledge of the firm's resources and market, which is used to create added value, and the capacity to maintain relationships with customers (Moorman and Slotegraaf 1999; Vorhies and Morgan 2005; Danneels 2008; Santos-Vijande et al. 2012). Network capability, meanwhile, enables the firm to identify the needs of their customers, to strengthen ties with their suppliers, and to foresee opportunities in the market that translate to better business performance (Pennings et al. 1998; Lee et al. 2001; Walter et al. 2006).

Firm age also positively affects business success because it would take time for firms to become legitimate, to develop standardized procedures, and to build trust with business partners (Stinchcombe 1965; DiMaggio and Powell 1983; Dobrev and Gotsopoulos 2010). Likewise, firm size positively affects business success because bigger organizations are more visible. This leads to an increased cognitive legitimacy, which stimulates business success (Meyer and Rowan 1977; Carroll and Hannan 1989; Baum and Oliver 1991; Oliver 1991; Shane and Foo 1999; Supangco 2003).

Conclusion and recommendation
This study shows that marketing capability, network capability, firm age, and firm size positively influence the business success of small and medium food enterprises in the Philippines. This implies that SME development can be achieved by improving the marketing and network capabilities through trade missions, international trade exhibitions, and export assistance (ERIA 2014).

Firm size also positively influences business success because larger firms are more visible to regulatory agencies that force firms to meet their requirements. Thus, regulatory bodies should have simpler frameworks to increase the compliance of SMEs with regulatory requirements that can enhance their local and global recognition.

Moreover, firm age positively predicts business success due to the attainment of standardized procedures over time. The government can give technical assistance to new enterprises in establishing such procedures. It is important that SMEs should first be locally competitive before they can integrate globally through trade and investments (OECD 2014). As a result, this will offer them both macro and micro benefits (APEC Policy Support Unit 2013).

References


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