



Enhancing External Participation of Philippine MSMEs Towards Entrepreneurial Venture Growth

Introduction¹

Alongside profit maximization and value creation, enterprises are in the pursuit of entrepreneurial venture growth.² The need to pursue entrepreneurial venture growth given the risks brought about by a volatile, uncertain, complex, ambiguous, and disruptive (VUCAD) world (Rafael et al., 2020) is vital to sustain entrepreneurs' income, to continue generating employment, and to continue providing value-adding products and services for society. However, entrepreneurial venture growth requires the capacity to produce products that are acceptable to the market; and the level of support given to enterprises to help them produce, innovate, and gain market access. Various functional areas of the business and government can work together to achieve this objective. From an empirical analysis of the Philippine Global Entrepreneurship Monitor (GEM) Adult Population Survey (APS) for 2006, 2013, 2014, and 2015, an auxiliary strategy was derived to make this happen. A key finding is the significance of external participation³ of Philippine micro, small, and medium enterprises (MSMEs) in facilitating entrepreneurial venture growth. Thus, to harness the impact of external participation on entrepreneurial venture growth, we recommended a strategic paradigm shift from a firm-centric to a value chain approach.

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²Entrepreneurial venture growth is defined as the rate at which enterprises expand to the next level through time. Following Marko (2010), growth are assessed in terms of employees, customers, revenue, liquidity, profit, geographic locations and a variety of other dimensions.

³External participation is defined as the degree of exposure or participation in the foreign market. This is represented in the GEM APS through international orientation (measured by share of foreign customers in output) and export orientation (measure by proportion of output for exports).

Key Policy Recommendations

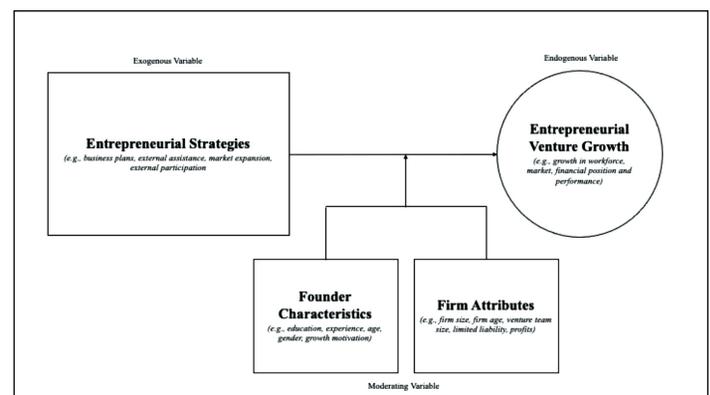
In conforming to a value chain approach to external participation, the following strategic recommendations are proposed for entrepreneurs. First, rather than venturing into direct exportation (i.e., produce final goods for exports), which most of the time proves to be very challenging due to lack of economies of scale and scope, MSMEs possessing niche specializations and technologies can be a supplier of raw materials or work-in-progress to larger enterprises who have both economies of scale and scope, as well as access to global value chains.⁴ Second, on the corollary, enterprises that produce finished products can develop their own global value chain by outsourcing from foreign suppliers and taking advantage of relatively lower costs with greater flexibility to market forces. As such, it is important to highlight that the productive capacity to participate in the international market is just a necessary condition of external participation. The sufficiency condition indicates that access to global value chains is critical.

In reinforcing the sufficiency condition, the government plays a vital role in assisting MSMEs, specifically those having difficulties traversing the VUCAD business environment, to manage risks so that they can realize the benefits of the external market. This can be done by providing technical assistance towards establishing forward and backward linkages with larger enterprises that are already linked with the global value chain. This can be complemented by providing capacity-building programs and financial support for enterprises to produce higher-value products that can participate in the international market. Ultimately, the government can contribute to marketing efforts by assisting MSMEs' participation in trade fairs, particularly those held abroad, through reduction or subsidization of participation costs. This is technically strengthening and interconnecting both local and global value chains.

⁴According to Francisco et al. (2019), among other factors, MSMEs can achieve higher productivity and growth through internationalization by linking them to global value chains.

Satisfying such necessary and sufficient conditions is further dependent on the entrepreneur's demographic characteristics and entrepreneurial venture's attributes. Another key finding from the empirical analysis of the Philippine GEM APS is the moderating of the effect of founder characteristics and firm attributes (e.g., entrepreneur's education, number of owners) in bolstering entrepreneurial venture growth (see Figure 1). These factors represent the dynamic mix between technical and experiential skills in driving entrepreneurial venture growth. In relation to the above mentioned recommendation on capacity-building programs and financial assistance, the government must continue intervening through the incessant provision of training and mentoring programs that entrepreneurs can seamlessly and readily avail. These programs can touch on both hard and soft skills, as well as micro (e.g., accessing resources, financing, crowd funding, asset-based financing, block chain technology, seed and early-stage finance, cluster financing; accessing and managing value chain; functional areas of management; total quality management, coping mechanisms; risk management) and macro (e.g., familiarity and proficiency in business, regulatory, economic policies) perspectives. These will allow MSMEs to proficiently and confidently participate in a globalized business environment not only because risks have been mitigated but also because they are well-equipped to strengthen their value chain.

Figure 1
Moderating Entrepreneurial Strategies Towards Entrepreneurial Venture Growth



Source: Gozun and Rivera (2021)

Benefits of the Key Policy

Because MSMEs comprise approximately 99% of the total establishments in the Philippines and are fragmented from across diverse sectors, industries, and markets, creating a conducive business environment for them that will empower their growth and export potentials is beneficial for the entire economy. Helping enterprises grow and globalize allows them to develop and exploit niche markets, expand their businesses abroad, and put local products into the world market. The implications of the empirical evidence support that these factors facilitate entrepreneurial venture growth. In return, globalized MSMEs provide more employment, generate higher income for the economy, contribute more to the country's trade performance, and showcase not only the products of the Philippines but the entire country in the world market—a basic yet effective tool to invite tourists, business people, and investors, among others to put their money in the local economy. These will have an accelerator effect in driving entrepreneurial venture growth.

Indeed, the government has a critical role. According to the Organisation for Economic Co-operation and Development (OECD, 2004), “governments need to ensure that regulatory, administrative and policy environments do not inhibit access to global markets” (pp. 17-18), so it would benefit MSME trade and foreign direct investment (FDI) involvement.

Basis of Recommendations

The above mentioned policy recommendations were based on an empirical analysis of the Philippine GEM APS. The study developed a framework that captured the determinants of entrepreneurial venture growth. GEM APS was deemed as the appropriate dataset because it contains the necessary variables that can represent the constructs indicated by scholarly literature. From scholarly literature (Storey, 1994; Shah et al., 2013), both internal and external factors to the firm drive entrepreneurial venture growth. These factors include, but are not limited to, founder characteristics, firm attributes, and entrepreneurial

strategies. Meanwhile, entrepreneurial strategies can be further classified into market expansion (e.g., technological orientation, competition) and external participation (e.g., international and export orientation).

By subjecting the Philippine GEM APS to econometric analysis, it was found that among the variables of interest, entrepreneurial strategies have a significant impact on entrepreneurial venture growth. Specifically, external participation is the most significant driver of entrepreneurial venture growth. This emphasizes that international orientation and export orientation are the way to go for businesses. However, this is conditional on the technical and productive capabilities of the business and its owners, as well as the availability of access to global value chains. The market expansion follows external participation in significantly explaining entrepreneurial venture growth. This highlights the critical importance of continuously innovating, finding new markets, adapting new technologies, and engaging in an appropriate degree of competition in driving growth.

However, the analysis revealed that founder characteristics (i.e., education, occupation, age, gender, motivation) and firm attributes (i.e., number of owners, firm age) have weak explanatory powers on entrepreneurial venture growth. This is contradictory with most literature. By holding other factors constant, demographics are inadequate predictors of entrepreneurial venture growth. This is because they may not have direct impacts on entrepreneurial venture growth. Rather, they have moderating effects on entrepreneurial strategies that directly influence entrepreneurial venture growth.

These findings made prominent that more than each of the individual factors considered, the interplay of founder characteristics, firm attributes, and entrepreneurial strategies are critical in driving entrepreneurial venture growth. That is, entrepreneurial strategies are moderated by founder characteristics and firm attributes, which are means for an enterprise to craft better strategies towards expansion and internationalization. As emphasized in the recommendations, moderating variables can serve as avenues where policymakers can intervene to optimize leverage.

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