# THE CHALLENGES TO SME MARKET ACCESS IN THE PHILIPPINES AND THE ROLE OF BUSINESS ASSOCIATIONS

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# EXECUTIVE SUMMARY

Small and medium enterprises (SMEs) represent an important sector in the Philippines. Yet, their productivity remains low compared to larger firms, due in part to limited market access. It has been shown that business associations can help SMEs build capacity, gain market access and grow.  Using a survey of 530 SMEs and a series of key informant interviews with SMEs and business associations, this paper studies 1) the challenges faced by SMEs in accessing markets and 2) the role of business associations in SME development.
The results of this study show that the primary obstacles to market access among Philippine SMEs are: 1) inadequate business operations, 2) human resource constraints, 3) difficulties complying with international standards and government regulations, 4) an inability to compete with competitors, 5) marketing and branding constraints, 6) inadequate infrastructure and distance to markets, 7) lack of access to finance, 8) lack of access to market information, and 9) shifting consumer preferences. Membership in business associations brings benefits, including business advice from organization members, access to expanded markets, increased access to supplies and inputs, better access to pricing information, assistance in complying with international standards and government regulations, lobbying and policy advocacy, branding and advertising, networking, coaching, and shared services. A simple econometric analysis on the relationship between business association membership and some indicators of market access was performed to complement the qualitative analysis. The paper ends with policy recommendations on how to improve SME market access in the Philippines.

# BACKGROUND AND OBJECTIVES

Small, and medium enterprises (SMEs) represent a very important economic sector in developing countries, as they account for a large share of the total number of firms and employment. In the Philippines, roughly 99.5 per cent of firms are classified as micro, small, or medium and together they contribute around two-thirds of employment and 35 per cent of Gross Value Added (GVA).

Although SMEs are integral to the economy, they are often beset by productivity and efficiency problems caused by factors such as limited access to finance (Harvie et al., 2013), human resources (ADB, 2015) and limited technical and management knowledge (Asasen et al., 2003). Among these challenges, a critical factor is access to markets, both local and international. Market access is one of the key constraints on SME growth and development, particularly in developing countries (Kiveu & Ofafa, 2013; Abor and Quartey, 2010). In countries with low population and low purchasing power, the domestic market may not be enough for an SME to reach its growth potential. SMEs in the Philippines face the same challenges.

Indeed, there are several factors explaining why SMEs in the Philippines – and in developing countries in general – have difficulties accessing markets. One is poor infrastructure. The country consistently ranks low in infrastructure in several competitiveness rankings, including transportation, communication, and technological facilities. Poor communication infrastructure limits technology-based marketing methods and on-line sales. This makes it difficult for SMEs to compete with big businesses already using these alternative methods. Problems accessing financing can also contribute to problems as some new market-access platforms, such as internet-based sales, may require significant investment.

As a result, several ways to address market access problems has been identified in the literature. Popular nowadays is integrating SMEs with global value chains or GVCs (ADB, 2015), although access to domestic markets is equally as important as access to international markets. One potential enabler of market access for SMEs is membership and participation in business associations and chambers of commerce. Businesses associations and cooperatives can help SMEs address constraints in value chain development (ILO, 2012), lobby as a group with suppliers and buyers (Bennett & Ramsden, 2007), and access information and expert advice (Maennig & Ölschläger, 2011). Business associations can also link SMEs to potential clients and markets, and open doors for potential partnerships and alliances. These organizations can also negotiate on behalf of members, with large buyers wielding strong bargaining power, such as large or multinational firms.

This study has two primary objectives: 1) to identify the obstacles faced by Philippine SMEs to accessing markets and 2) to determine the role of business associations in helping SMEs address these challenges, ultimately contributing to increased profitability and growth. In addition, the study looks at the relationship of business association membership with several indicators of market access; and formulated policy recommendations for SMEs, business associations, and government on how to improve SME market access.

This paper is organized as follows. Background and study objectives are followed by a literature review on: 1) the obstacles to SME market access and 2) the role of business associations on firm development. Then the methodology details explain the definition of SMEs, data sources, and methods of analysis, are discussed. From there, the paper presents results followed by the interpretation and implications. A brief summary and policy recommendations conclude the paper.

# LITERATURE REVIEW

## A. SME MARKET ACCESS PROBLEMS

The market access problems of SMEs have been well-documented in the literature, although there is a dearth of studies using Philippine data. The country has certain characteristics that could create different SME market access problems from those in other countries. It is an archipelago made up of more than seven thousand islands and dozens of languages. Reaching far flung markets is often difficult, and cultural differences mean tastes and preferences vary. Product adjustments may be necessary for a firm that seeks to reach a new market. In addition, infrastructure is poor in many areas making it difficult to reach markets in these locations. The extent to which a firm can access new markets depends on factors such as the infrastructure availability, distance from markets, access to financial resources, the extent of the owner's knowledge and information, government policies and regulations, and competition from big businesses (Biswas & Baptista, 2012; The Economist, 2012; Ladzani & van Vuuren, 2002; Siemens, 2010). Businesses located in urban areas have easier access to large markets, customers and clients, and modern infrastructure and services like internet connection and banking (Siemens, 2010).

However, for businesses located far from big cities, smaller market size limits growth and access to resources. This is especially true for firms located on small islands that may face difficulties getting raw materials (Camara, 2006; Siemens, 2010). This finding is particularly relevant to the Philippines because it is made up of thousands of islands, many of which are remote and hard to access.

Distance can also affect the relationship between the SME and the organizations and networks to which it belongs. And while these organizations help SMEs access international markets, a firm located far from the association's headquarters is less likely to export than one located nearby (Boehe, 2013). Owners and managers of SMEs in remote locations also have less time to manage their businesses because services like banking and other activities such as meeting with clients involve travelling to the nearest urban center. This is exacerbated if the firm cannot find competent employees in their area.

Isolation from larger markets, coupled with limited infrastructure, also increases the firm's business costs due to higher product transportation and distribution costs (Siemens, 2010). Infrastructure is crucial especially for the delivery of fresh products such as fish and crops, and delays can cause product quality to decline and spoilage to increase (Camara, 2006). Businesses also face e-commerce challenges in remote areas. Remote regions tend to have poor internet connection compared to urban areas (Siemens, 2010).

A lack of knowledge affects both an SME's ability to enter a new market and survive once it has gained access (Gentry, Dalziel & Jamison, 2013; Janjuha-Jivraj, Martin & Danko, 2012). Because they lack experience, SMEs face finance and profit uncertainties. Experienced owners and managers in dynamic industries such as information technology may also find their knowledge obsolete if they can't adapt to the constantly-changing business environment (West & Noel, 2009).

Another contributing factor to SME expansion and entry to new markets is the extent of government bureaucracy and interference. Zapalska and Edwards (2001) wrote that enterprises prosper and grow when economies liberalize and reform. When government officials and bureaucrats meddle too much with the running of businesses, firm owners and managers cannot effectively manage and lead their businesses. This is especially true in economies where SMEs must contend with restrictive laws and regulations, minimal laws on property rights, and bureaucracies with biases toward state-owned enterprises (Minh & Hjortso, 2015).  Aside from government bureaucracy and interference, regulatory inefficiencies, lack of competition, and corruption also discourage firms from expanding to new markets. Regulatory and elite capture, where public resources benefit only government cronies, discourages SMEs from expanding into markets where this is widespread. This has been demonstrated in multiple studies from developing countries (Knuth et al., 2016; Rahman, Uddin & Lodorfos, 2017).

## B. THE POTENTIAL BENEFITS OF BUSINESS ASSOCIATIONS AND NETWORKS

The functions of a business association vary and may depend on the needs of its members, including lobbying, information gathering, creating market protection mechanisms, providing business services, and market research (ILO, 2012). Bennett and Ramsden (2007) argued that SMEs join business associations with varying objectives, ranging from individualized support to group lobbying.

Furthermore, organizations affiliated with others in different industries can facilitate cross-sector networking. By being part of a business organization, an SME can improve market leverage through joint purchasing of inputs with other businesses. The same can be said for raising financial capital or other joint initiatives. Chambers of commerce and industry cultivate local businesses by offering workshops, seminars and information campaigns, advice, and by setting up networks with experienced business executives (Maennig & Ölschläger, 2011). Furthermore, business associations help build ties between businesses and strengthen those relationships and connections. They make it easier for businesses to build long-term relationships with each other by facilitating different bilateral and multilateral activities (Dalziel, 2006).

Business associations also promote and represent the interests of SMEs in the political arena. They may, for example, lobby government officials on behalf of their members to promote and protect property rights and eradicate bureaucratic corruption, making it easier for member firms to do business (Doner & Schneider, 2000; Nguyen, 2014; Over & Henkel, 2013). Additionally, a study on business start-ups and social capital found organization membership had a significant positive effect on profitability (Davidsson & Honig, 2003). There is also a positive relationship between an SME's membership to an industry association and its inclination to export (Boehe, 2013).

The level of benefits that business associations can give its members, however, may be skewed by other factors. One is association size – the larger the organization, the more likely it can positively affect its members. Fragmented organizations that have large overlaps with similar groups have only a minor impact on business development. Nevertheless, this may be due to the incipient nature of an area and its highly localized market (Jain, 2011). Moreover, business associations whose membership is voluntary instead of mandatory may have trouble gaining enough funding to adequately serve its members because they can opt-out any time (Bennett, 1998). Another factor is management quality, particularly in small organizations. Poorly managed associations have limited ability to assist their members (ILO, 2012).

As well as providing services and benefits directly to its members, business organizations may also have positive spillover effects on the economy. Doner and Schneider (2000) outlined a list of such benefits in their framework. They categorized the contributions into two groups: 'market-supporting', and 'market-complementing'. 'Market-supporting' activities include promoting property rights, infrastructure, and more efficient bureaucracies. These are activities that target institutional factors, affecting not just member firms but the whole business ecosystem. 'Market-complementing' activities include reducing inflation, setting product standards, training and promotion, and reconciling differences along value chains. These too, have industry-wide effects. Similarly, Besser and Miller (2011) studied the effect of membership in an organization on social performance. Using data from 900 businesses in 29 associations, the authors found association members tend to conform to the social performance of other members.

Moreover, SMEs also benefit from engaging in informal business networks, which tend to hinge on the development of personal relations between SME owners. Such networks provide SMEs with social capital, shared meaning and interpretations, and a well-defined network structure (Nahapiet & Goshal, 1998). When SMEs share the same business language, narratives, and norms, they communicate and coordinate more efficiently, leading to referrals and collaboration with other firms (Bolino et al., 2002; Camara, 2006; Johanson & Vahlne, 2009; Lamin, 2013).

Likewise, social networks are important because they provide firms with support and access to resources, which they can share with each other. These shared resources are specific to their needs and environment and can give them advantages over businesses operating outside informal networks. Social networks also help firms scout for opportunities and obtain resources (BarNir & Smith, 2002).

Correspondingly, firms with close ties may form strategic alliances. These alliances allow members to pool resources and skills, and share goods, costs, technologies and information (BarNir & Smith, 2002; Forrest, 1990). These are useful for SMEs, especially for small technology-based firms. By forging alliances with fellow technology-based firms and other institutions like universities, they become more competitive through technological innovation (Forrest, 1990). Even competing SMEs can form networks and share information and resources when faced with larger competitors. Brown and Butler (1995) found evidence that building networks with rival SMEs can have a positive effect on sales growth as observed in the case of the U.S. wine industry.

Conversely, social networks help mitigate risks firms face when entering new markets (Camara, 2006). Firms with strong, established relationships with other businesses in a new market can more easily obtain information on resources and strategies (Johanson & Vahlne, 2009; Yener, Dogruoglu & Ergun, 2014). In China, firms and entrepreneurs use existing personal connections or 'guanxi' to help navigate hostile environments (Ahlstrom & Bruton, 2002). New firms also build new connections or 'guanxi' by granting favours to potential suppliers and customers. By developing these new connections, firms minimize uncertainty and risks in future transactions (Camara, 2006). The use of 'guanxi' has been found to have a positive relationship with financial performance, specifically return on assets (Opper, Nee & Holm, 2017).

Finally, Davidsson and Honig (2003) found evidence that social capital contributes strongly to nascent entrepreneurship. Having family members or friends in the business increased the likelihood that a prospective business owner will start a firm and that encouragement from friends and family accelerated the business' gestation period. SME education and innovation is mostly accomplished through informal means like network events, mentoring, or coaching (Saunders et al., 2014). Social networks also help firms obtain informal loans when formal financing is inaccessible (Camara, 2006). Once financing and other forms of support from social networks is secured, firms can more easily enter markets and access resources and inputs at lower costs (Janjuha-Jivraj, Martin & Danko, 2012; Pathak & Muralidharan, 2016).

# METHODOLOGY

## A. WHAT ARE SMES?

The Philippines currently uses two SME definitions – one based on asset size, the other on employment. A firm may be classified as a micro enterprise if it has fewer than 10 employees or asset size of up to PhP 3 million (around USD 60,000). A small business has 10 to 99 employees or asset size of between PhP 3 million and PhP 15 million (around USD 300 thousand); while a medium-sized firm is one with 100 to 199 employees or asset size of between PhP 15 million and PhP 100 million (around USD 2 million). A firm is classified as large if it has at least 200 employees or asset size more than PhP 100 million).

## B. DATA SOURCES

This study used two sets of primary data. The first was a survey conducted in 2017 among 530 SMEs in Metro Manila, Philippines. It focused primarily on linkages between SMEs and large firms and how SMEs perceive and experience competition. However, the survey instrument also included questions on membership in business associations, the importance and benefits of such associations, and the extent of market access.

Survey respondents were randomly selected and screened to meet both asset size and employment definitions of an SME. Randomization was done either through systematic sampling or the list of businesses provided by city governments within Metro Manila[1]. The 530 respondents were equally divided into small and medium firms and came from different sectors. The majority of respondents in this region were from firms in the services sector (91.5 per cent); the remaining were from industry including manufacturing and construction.  A summary of respondents' profiles is in Table 1.

## Table 1. Profile of Respondent Firms

| Size and Other Information | |
|---|---|
| Average Asset Size | PhP 20.7 M (USD 414,000) |
| Average Number of Employees | 51.5 |
| Average Age of Owner or Majority Owner | 53 |
| Share of Firms with Male Owner or Majority Owner | 72.3% |
| | |
| **Sector Composition** | |
| Industry | 8.5% |
| Services | 91.5% |
| Retail Trade | 36.6% |
| Hotel and Restaurant | 20.1% |
| Other Services | 34.8% |
| | |
| **Year of Establishment** | |
| 2010s | 35.0% |
| 2000s | 35.0% |
| 1990s | 14.7% |
| 1980s | 6.5% |
| 1970s and older | 8.8% |

*Source: AIM Policy Center Survey of SMEs, 2017*

The second data source was a series of key informant interviews (KIIs) with SME owners or managers and business associations. These interviews discussed market access problems encountered by Philippine SMEs. The interviews also helped clarify the potential roles of business associations in helping SMEs grow and overcome obstacles to market access.

The respondents for the KIIs included 16 SMEs represented by their owners or managers and five business association officials. Like the survey, it also covered SMEs in Metro Manila from different sectors. Around 80 per cent of the respondents were from the services sector such as healthcare, wholesale and retail trade, education, and hotel and restaurants. The remaining were from the industry sector, particularly manufacturing and construction. Key informant interviews were also conducted with five business associations. These included a national business organization of large and small businesses from all industries, a national organization of exporters, a franchisers' organization, and two food industry associations.

Face-to-face, semi-structured interviews were used to conduct the KIIs. The questionnaire for SMEs asked what markets they are trying to reach and about obstacles standing in their way. It asked what support they need from third parties such as governments or business associations. It also asked how helpful business associations are in helping SMEs access markets and compete. The questionnaire for business associations included questions on SME market access problems and how the association helps SMEs address these challenges.

While the survey was more quantitative in nature, the KIIs allowed for qualitative data gathering. Although there were fewer respondents in the KIIs than in the survey, the former allowed the interviewees to provide more detailed answers. This allowed the responses to be assessed in greater detail.

## C. METHOD OF ANALYSIS

The KIIs data was analyzed qualitatively to identify several themes pertaining to: 1) market access problems and 2) the role of business associations in helping SMEs address market access problems and SME development in general.

The survey data, on the other hand, was used to identify the general benefits of business associations to SMEs. It was also used to conduct a simple econometric analysis to study the relationship between business association membership and different market access indicators, including an SME's attempt to expand, gain access to credit and gauge how SMEs view themselves against their competitors.

# RESULTS AND DISCUSSIONS

## A. SME MARKET ACCESS PROBLEMS

In the Key Informant Interviews (KIIs) with SMEs and business organizations, respondents were asked questions on problems related to accessing markets, both local and domestic, and the role business organizations play in addressing these challenges. Based on existing literature, we identified themes related to market access problems encountered by SMEs and then validated these themes with the KII responses. Emerging themes were also identified from the KIIs during the coding process.

Based on SME responses, the most recurrent themes related to market access and expansion challenges are: 1) business operation inadequacies, 2) human resource constraints, 3) difficulties complying with international standards and government regulations, 4) inability to compete, 5) marketing and branding constraints, 6) inadequate infrastructure and distance to markets, 7) lack of access to finance, 8) lack of access to market information, and 9) shifting consumer preferences. Figure 1 shows the most common SME market access challenges based on KIIs with SME managers and owners.

## Figure 1. Common SME Market Access Challenges According to SMEs
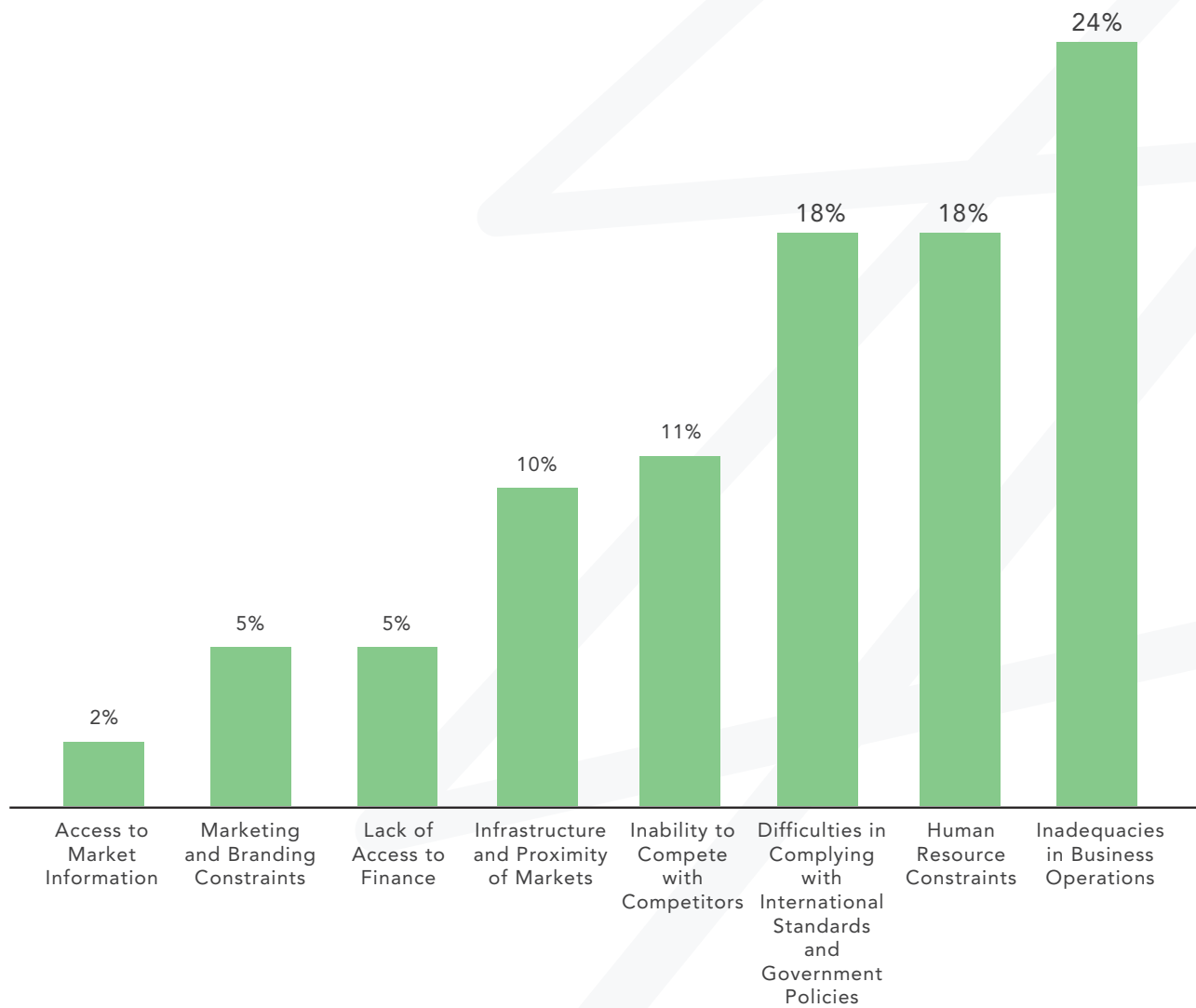


Source: Author's Analysis from Key Informant Interviews

## 1. Inadequacies in Business Operations

The most recurrent challenge to expanding markets identified by SMEs is business operation inadequacies. This includes various aspects of running an efficient business, such as having proper facilities and access to relevant technologies. Online business operations have been perceived by many as a strategic way to expand a firm's market. However, online ventures require a different business model or approach. One respondent currently engaged in online selling emphasized the need to establish credibility online to entice customers to buy new products. Another respondent who owns a laundry shop said he sees social media as a platform to solicit more clients. However, since his business operates traditionally, he has not yet found a way to tap into additional markets.

## 2. Human Resource Constraints

Finding the right employees was a prime concern of SME respondents. The lack of qualified manpower poses a market access barrier for SMEs because it affects the overall business operation. Penetrating new markets may also require marketing, innovation and the improvement of existing products or development of new ones, which is difficult without qualified employees. One interviewee said most workers in his sector are usually aged 50 and up, which threatens the business continuity and health of the entire sector. Another respondent engaged in the wholesale and retail trade, said there is an employee shortage because many people nowadays prefer not to engage in blue-collar work. Another respondent in education sector said there is a shortage of teachers with the right qualifications.

## 3. Difficulties in Complying with International Standards and Government Regulations

Compliance with government regulations and policies also stands in the way of market access for SMEs. Inefficiencies include, numerous forms and requirements, corruption, and cumbersome business registration procedures which hinder SME growth and expansion into new markets.

Compliance with government regulations is also the most frequently identified hindrance to market access cited by business organization respondents. Most business organization interviewees mentioned government processes and requirements (e.g. numerous steps, forms, and documentation requirements) make it difficult for SMEs to do business or expand their markets. Informal business owners can benefit by registering their businesses because it makes them more visible to potential customers. However, once they are registered it become more difficult to expand to other cities and provinces. Business licensing in the Philippines is done at the city or municipal level. Thus, expanding market reach by establishing a satellite office or store in another city or municipality requires new rounds of business permit and license applications.

SMEs also find it difficult to comply with international standards that allow them to penetrate international markets. Many international buyers require

certain kinds of quality certifications from suppliers abroad. In addition, there are regulations on the use of some inputs and technologies; and potential SME exporters must adhere to these policies to sell to these markets. Many SMEs do not have access to the required financial capital and technologies to comply with these standards.

## 4. Inability to Compete with Competitors
Another recurrent theme among the responses of SMEs on the problem of accessing new markets is the inability to compete against established businesses. Competition from large and foreign firms is difficult to overcome. Though SMEs may try to match the quality of their competitors' products, bigger businesses are usually able to charge lower prices because of economies of scale. One respondent mentioned a large competitor selling the same products and services offers additional products for free when clients purchase from them.

When SMEs cannot compete, they lose market share to competitors. There are two general ways to compete – price and product differentiation. SMEs are usually disadvantaged by price because larger firms have economies of scale. SMEs can also compete through product differentiation, but their product from that of their competitors but developing a new or improved product takes time and considerable investment.

## 5. Marketing and Branding Constraints
Effective branding and marketing strategies are needed to penetrate new markets. However, many SMEs lack this capability. They lack the necessary skills to inform consumers how their product differs from others through package design, labelling, and advertising. SME managers and owners need to develop effective branding and marketing skills to attract potential buyers.

## 6. Inadequate Infrastructure and Distance to Markets
Infrastructure and proximity issues are also among the most mentioned themes adversely affecting SME market expansion. One SME interviewee expressed interest in expanding business outside Manila. However, limited infrastructure and distance issues prevent the firm from doing so because the business depends on fast delivery time. Another respondent said his business is currently located relatively far from his target customers. Distance hinders his business from reaching more clients.

The Philippines is ranked below its ASEAN neighbors in several infrastructure rankings. When transport infrastructure is poor, it increases the cost of moving goods and makes it more difficult to reach target markets. This is especially true for firms whose production process is located far from their intended markets (e.g. farms, manufacturing plants). Communication infrastructure such as telephone lines and the internet are also crucial as many sellers today employ different internet-based selling platforms to reach some target markets. With poor connection, the market reach of SMEs is limited.

## 7. Lack of Access to Finance
Penetrating new markets often requires additional capital to develop new

products, improve existing ones, and comply with regulations and standards in target markets. SMEs often lack access to finance or are too risk averse to seek external financing. Because of their small size and lack of fixed assets, SMEs usually do not have access to common collateral such as land and buildings. Also, lenders do not have access to credit history of SMEs or information that could prove a business's creditworthiness. This is because many SMEs are unable to maintain proper and accurate financial statements.

### 8. Lack of Access to Market Information

SMEs have limited access to information on preferences, needs, spending capacity, and the willingness to pay of potential buyers in their target markets. To expand market reach, SMEs must identify where there is a demand for their product. For instance, an SME planning to export must not only comply with international quality standards and regulations of its target country, it must also know whether its products would match consumer tastes and preferences. It must also know if personal income levels are high enough for consumers to afford the product. This information is costly to obtain and not usually available to SMEs.

### 9. Shifting Consumer Preferences

The second most recurrent theme among business organization respondents pertains to consumer preferences. Some SMEs have high-specificity equipment which can only be used to produce specific goods. When market demand changes and consumer preferences shift, these SMEs fail to adapt because acquiring new assets requires significant capital. A related obstacle is the preference of domestic consumers for foreign over locally-made products. Local SMEs sometimes cannot compete against foreign brands because of this preference, which limits their domestic market potential.

## B. THE ROLE OF BUSINESS ASSOCIATIONS

### B.1 Survey Results

Survey results showed that 25.1 per cent of the 530 respondents were members of at least one business organization. Among members, 60.9 per cent said these organizations were important to them, and 30.8 per cent said they were very important. The remaining 8.3 per cent said they were slightly or not at all important.

The survey also provided data on self-reported benefits derived by members from their business associations. A large majority of members, 94 per cent, identified receiving good advice from organization members as a benefit of business association membership. The second most common benefit was access to an expanded market, identified by 93.2 per cent of member respondents. This was followed by increased access to supplies and inputs (88.7 per cent), better access to pricing information (87.2 per cent), increased bargaining power over suppliers (72 per cent), and increased bargaining power over buyers (47.7 per cent). These benefits are summarized in Figure 2.

## Figure 2. Percent of Respondents Who Identified the Following as Benefit of Business Association Membership
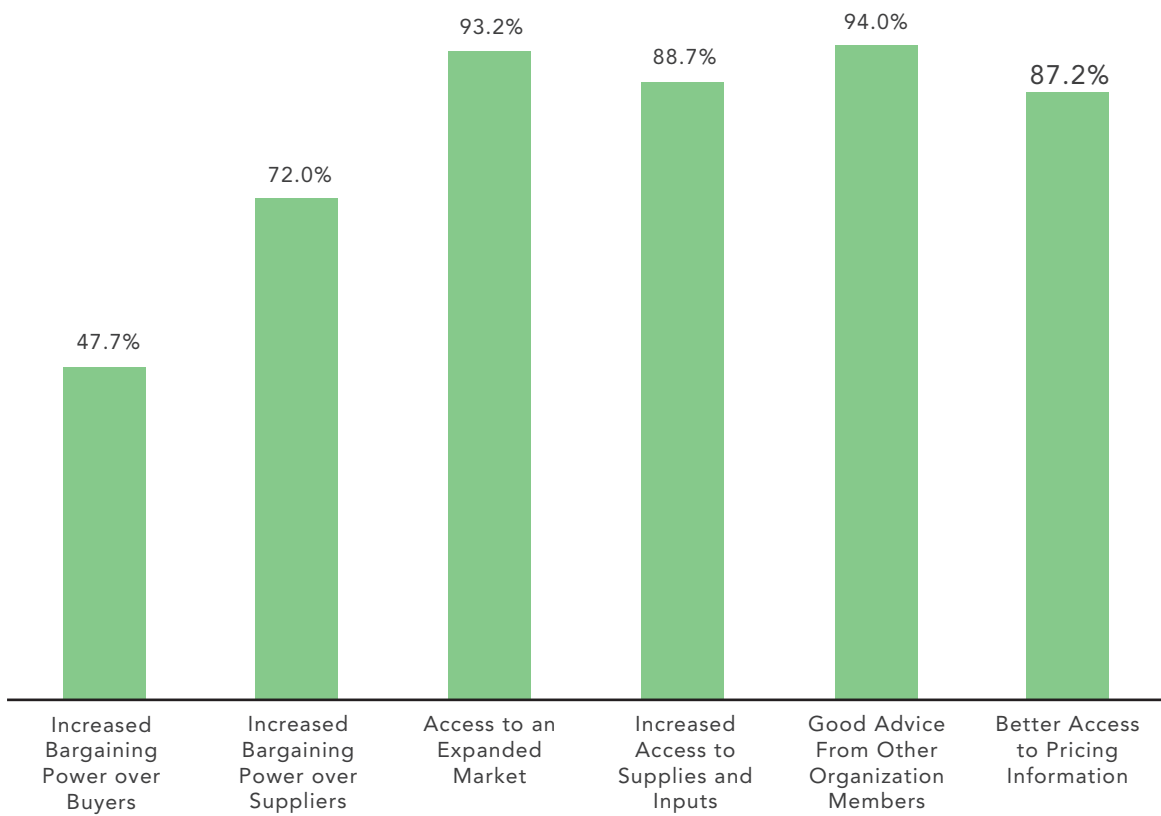


Source: AIM Policy Center Survey of SMEs, 2017

## B.2 KII Results

All SMEs interviewed were members of one or several business organizations. They were asked to describe the roles business organizations played in helping them address market access problems to improve overall business development.  Figure 3 shows the five most recurrent themes pertaining to the benefits of business organizations.

### Figure 3. Common Benefits of Business Organizations to SMEs



Network Facilitation — 69%
Market Expansion — 19%
Compliance — 9%
Lobbying and Policy Advocacy — 3%
Branding and Advertisements — 1%
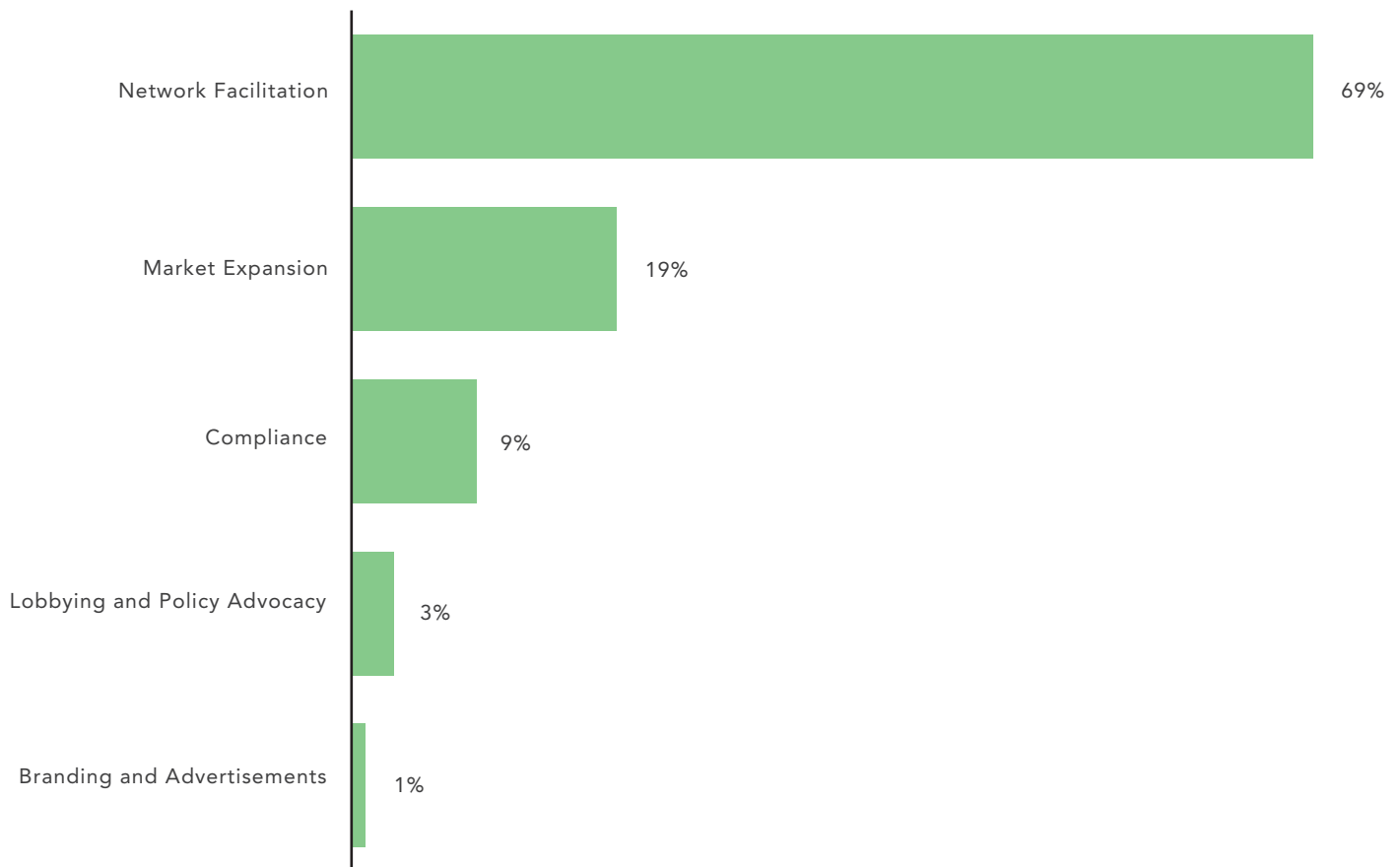
*Source: Author's Analysis from Key Informant Interviews*

## 1. Network Facilitation and Informal Benefits

Networking ranked highest: giving SMES access to professional coaching and mentoring, training workshops, business-linkage opportunities, service sharing as well as informal business and personal connections.

Through business organizations, SMEs established partnerships with fellow SMEs, large businesses, and foreign firms which helped them identify and more easily access new markets.  Other benefits mentioned were professional coaching, training, and mentoring programs for SMEs. Some of the respondents said training gave them insights into current business trends, new ideas, and connected them with similar businesses through networking events and meetings. Mentoring programs also gave SMEs a chance to learn how larger businesses grew and ask for advice on how they could do the same. Some respondents mentioned that by sharing services, they were able to access certain facilities at a lower price from other business organization members. One respondent said his organization opened a shared-service facility and bought high-tech shoe-making equipment for members to use at reasonable rates. This made certain aspects of product development and manufacturing more efficient.

These networking benefits may either be formal or informal in nature. Informal ones include establishing and fostering interpersonal networks, referrals, and gaining social capital. Most reported valuable relationships were formed outside the formal setting of a business organization event or meeting. According to some respondents, joining business organizations and participating in activities allowed them to establish good relations with other members, some of whom became friends or even business partners. This meant that when one member was in need, others were willing to help where able.

## 2. Market Expansion

The second most-recurring theme was market expansion. According to respondents, business organizations provided them with relevant market information and helped identify opportunities. This helped SMEs be more competitive when they decided to expand. Each business association had its own way of fulfilling this role. This included the provision of informative magazines, organizing committees to assist with possible business expansion, and increasing awareness of business standards both within the country and abroad.

## 3. Compliance

According to respondents, business organizations also helped them comply with local and international policies, regulations, and standards. Business associations had shared knowledge and expertise in government bureaucratic procedures that most nascent SMEs did not yet know or understand. They assisted and guided SMEs with compliance, certification, and helped them with paperwork whether it was for local registration or international expansion.

## 4. Lobbying and Policy Advocacy

Because of their size, SMEs often do not have the ability to lobby on their own

and need the help of bigger, more connected organizations. Business associations help by advocating for policies and programs needed by SMEs.

### 5. Branding and Advertisements

Business associations can also help SMEs advertise and market their products well. This can be done through an organization's network and connections. Organizations organize events such as trade fairs, exhibitions, and other platforms.

### 6. Business Organization Perspective

Business organizations were asked about their roles in SME development in general and market access in particular. Recurring themes were: 1) network facilitation, which includes establishing linkages with relevant government agencies and other businesses and organizations, professional coaching, mentoring, workshops, and seminars, assistance with local and international trade participation, and shared services, 2) compliance, 3) branding and advertising, 4) market expansion, and 5) lobbying and policy advocacy. Similar benefits were mentioned by SME interviewees.

## C. STATISTICAL ANALYSIS OF BUSINESS ORGANIZATION MEMBERSHIP

To complement and validate the interview results, regression analysis was performed on data gathered from the 2017 survey, analyzing the relationship between business organization membership and some factors crucial to SME development. Specifically, the relationship of membership in a business organization with each of the following variables (variable names in parenthesis) was analyzed: 1) access to geographic markets (*geogmkt_sum and geogmkt_order*), 2) engagement in formal partnerships with large domestic and foreign firms (*partnership*), 3) being part of a global production network (*globalprod*), and 4) exporting or plans for exporting (*export*). These variables were regressed on a dummy variable indicating membership in a business organization and several other control variables including sector, age of firm, size of firm, number of employees, the intensity of competition faced, and education level of the owner or majority owner (variables description is shown in Table 2). The independent variable of interest is *orgmember*, a dummy variable that takes the value of one if the respondent is a member of a business association and zero otherwise,

The *export* variable is a dummy variable for respondents who export or are planning to export in the next two years. The *globalprod* variable is a dummy variable for respondents who are part of a global production network. The variable *partnership* is a dummy variable for respondents who engaged in formal partnerships with domestic large businesses or foreign firms. These partnerships are outsourced or sub-contracted by a local large business or a foreign firm, which licenses them to manufacture a product, and form a joint venture, strategic

alliance, or consortium with a local large business or foreign firm.

Unlike the dependent variables, *export*, *globalprod*, and *partnership*, which are dummies variables, the two variables that measure access to geographic markets, *geogmkt_sum* and *geogmkt_order*, are count variables. The survey asked the respondents about the geographic reach of their products with the following options (multiple answers allowed): within the city, within Metro Manila but outside the city, within the Philippines but outside Metro Manila, within ASEAN but outside the Philippines, and outside ASEAN. The dependent variable *geogmkt_sum* was generated by summing up the number of geographic markets accessed by the firm. For example, if firm A has access to markets within the city and within the Philippines but outside Metro Manila, the value of *geogmkt_sum* for firm A is two. If firm B has access to markets within the city, within ASEAN but outside the Philippines, and outside ASEAN, the value of *geogmkt_sum* for firm B is three. On the other hand, the dependent variable *geogmkt_order* was generated as an ordered variable. It takes on a value of 0 if the firm has access to markets within the city and/or Metro Manila only, a value of 1 if the firm has access to markets within the country outside Metro Manila, and a value of 2 if the firm has access to markets outside the Philippines.

Because the variables *partnership*, *globalprod*, and *export* are binary, logit regression was used in the runs with them as the dependent variable. Ordered logit regression was used for *geogmkt_order* because it is an ordered variable; and Poisson regression was used for *geogmkt_sum* because it is a count variable. The results of these regressions are reported in Table 3.

## Table 2. Summary Statistics

| Variable Name | Type | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| geogmkt_order | Dependent | 0.49 | 0.55 | 0 | 2 |
| geogmkt_sum | Dependent | 2.18 | 0.94 | 1 | 5 |
| partnership | Dependent | 0.15 | 0.35 | 0 | 1 |
| globalprod | Dependent | 0.15 | 0.36 | 0 | 1 |
| export | Dependent | 0.10 | 0.30 | 0 | 1 |
| expandsum | Dependent | 3.80 | 1.52 | 0 | 7 |
| newprod | Dependent | 0.67 | 0.47 | 0 | 1 |
| imprvprod | Dependent | 0.88 | 0.33 | 0 | 1 |
| mkt_dom | Dependent | 0.72 | 0.45 | 0 | 1 |
| mkt_asean | Dependent | 0.09 | 0.28 | 0 | 1 |
| mkt_world | Dependent | 0.06 | 0.23 | 0 | 1 |
| equip | Dependent | 0.61 | 0.49 | 0 | 1 |
| addemploy | Dependent | 0.80 | 0.40 | 0 | 1 |
| adv_sum | Dependent | 2.37 | 2.29 | 0 | 7 |
| price | Dependent | 0.23 | 0.42 | 0 | 1 |
| feature | Dependent | 0.35 | 0.48 | 0 | 1 |
| quality | Dependent | 0.45 | 0.50 | 0 | 1 |
| randd | Dependent | 0.37 | 0.48 | 0 | 1 |
| marketing | Dependent | 0.36 | 0.48 | 0 | 1 |
| delivery | Dependent | 0.34 | 0.47 | 0 | 1 |
| finstab | Dependent | 0.27 | 0.45 | 0 | 1 |
| creditconst | Dependent | 0.11 | 0.31 | 0 | 1 |
| orgmember | Independent (Variable of interest) | 0.25 | 0.44 | 0 | 1 |
| services | Independent (Control) | 0.92 | 0.28 | 0 | 1 |
| firmage | Independent (Control) | 15.43 | 14.15 | 2 | 93 |
| medium | Independent (Control) | 0.50 | 0.50 | 0 | 1 |
| employees | Independent (Control) | 51.63 | 57.83 | 10 | 199 |
| medium_comp | Independent (Control) | 0.38 | 0.48 | 0 | 1 |
| high_comp | Independent (Control) | 0.46 | 0.50 | 0 | 1 |
| college | Independent (Control) | 0.79 | 0.40 | 0 | 1 |
| postgrad | Independent (Control) | 0.10 | 0.30 | 0 | 1 |
| newproduct | Independent (Control) | 0.67 | 0.47 | 0 | 1 |
| loan | Independent (Control) | 0.17 | 0.38 | 0 | 1 |
| hotelsrestau | Independent (Control) | 0.20 | 0.40 | 0 | 1 |
| retail | Independent (Control) | 0.38 | 0.48 | 0 | 1 |
| industry | Independent (Control) | 0.08 | 0.28 | 0 | 1 |

## Table 3. Regression Coefficients - Membership in Business Association and Market Access

| Variables | (1) geogmkt_order | (2) geogmkt_sum | (3) partnership | (4) globalprod | (5) export |
|---|---|---|---|---|---|
| orgmember | 0.387* (0.214) | 0.0736* (0.0432) | 0.875*** (0.283) | 0.378 (0.278) | 1.031*** (0.325) |
| services | -0.323 (0.328) | -0.0339 (0.0608) | -0.865** (0.419) | -0.564 (0.420) | -0.762 (0.468) |
| firmage | 0.00762 (0.00651) | 0.00127 (0.00114) | -0.0249** (0.0120) | 0.000802 (0.00866) | -0.00619 (0.0116) |
| medium | 0.328 (0.202) | 0.0805* (0.0419) | 0.550* (0.300) | 0.407 (0.290) | 0.169 (0.364) |
| employees | 0.00635*** (0.00178) | 0.00125*** (0.000275) | -0.000611 (0.00248) | 0.00433** (0.00218) | 0.00312 (0.00271) |
| medium_comp | -0.128 (0.280) | 0.0108 (0.0616) | 0.846* (0.494) | 0.0550 (0.401) | -0.311 (0.455) |
| high_comp | 0.118 (0.270) | 0.0459 (0.0604) | 1.082** (0.483) | 0.246 (0.385) | -0.391 (0.448) |
| college | 0.261 (0.320) | 0.0682 (0.0756) | 0.107 (0.455) | 0.561 (0.509) | 0.447 (0.578) |
| postgrad | 0.996** (0.424) | 0.178* (0.0932) | -0.303 (0.652) | 1.108* (0.599) | 0.444 (0.752) |
| newproduct | 0.347* (0.203) | 0.0512 (0.0415) | 0.637* (0.329) | 0.205 (0.289) | 1.713*** (0.544) |
| loan | 0.436* (0.249) | 0.0713 (0.0525) | -0.312 (0.401) | 0.526 (0.323) | 0.497 (0.412) |
| Constant cut1 | 1.212** (0.495) | | | | |
| Constant cut2 | 4.807*** (0.573) | | | | |
| Constant | | 0.504*** (0.104) | -2.599*** (0.746) | -2.783*** (0.719) | -3.718*** (0.902) |
| Observations | 500 | 500 | 500 | 500 | 500 |
| Method | Ordered Logit | Poisson | Logit | Logit | Logit |

Standard Errors in Parentheses          *Significant at 10%; **Significant at 5%; ***Significant at 1%

Aside from access to geographic markets, we also tested the relationship of business association membership with other crucial variables, particularly expansion, being credit constrained, and how the SME views itself against competitors. In the survey, respondents were asked what expansion strategies they attempted over the last two years. Seven expansion categories were tested relative to business association membership if the SME: introduced a new product or service (*newprod*), improved existing product or service (*imprvprod*), sought new domestic markets (*mkt_dom*), sought new markets within ASEAN (*mkt_asean*), sought new markets outside ASEAN (*mkt_world*), added new equipment or operating space (*equip*), and hired additional employees (*addemploy*). An eighth variable, *expandsum*, is the sum of the number of expansion categories attempted by the respondent. Logit regression was used to estimate the relationship of the individual variables with business association membership; while Poisson regression was used when *expansum* is the dependent variable. The results of these regressions are reported in Table 4.

## Table 4. Regression Coefficients - Membership in Business Association and Expansion

| Variables | (1) expansum | (2) newprod | (3) imprvprod | (4) mkt_dom | (5) mkt_asean | (6) mkt_world | (7) equip | (8) addemploy |
|---|---|---|---|---|---|---|---|---|
| orgmember | 0.104*** | 0.435* | 0.0813 | 0.517** | 0.815** | 1.069*** | 0.335 | 0.0127 |
| | (0.0366) | (0.238) | (0.346) | (0.258) | (0.340) | (0.402) | (0.223) | (0.272) |
| services | -0.156*** | -0.786** | -1.305* | -0.675* | -1.070** | -0.683 | -0.507 | 0.111 |
| | (0.0498) | (0.397) | (0.751) | (0.405) | (0.480) | (0.610) | (0.353) | (0.396) |
| firmage | -0.00272** | -0.00453 | 0.000262 | -0.00270 | -0.0155 | -0.0271 | -0.0136** | -0.0187** |
| | (0.00123) | (0.00683) | (0.0106) | (0.00738) | (0.0131) | (0.0177) | (0.00655) | (0.00752) |
| medium | 0.0396 | -0.242 | -0.275 | 0.541** | 0.549 | 0.592 | -0.131 | 0.367 |
| | (0.0372) | (0.213) | (0.308) | (0.225) | (0.370) | (0.433) | (0.205) | (0.251) |
| employees | 0.00116*** | 0.00663*** | 0.0134*** | 0.00602** | 0.00170 | -0.00446 | 0.00424** | 0.00881*** |
| | (0.000254) | (0.00214) | (0.00472) | (0.00243) | (0.00283) | (0.00411) | (0.00190) | (0.00303) |
| medium_comp | 0.0788 | 0.408 | 0.386 | 0.391 | 0.761 | 0.217 | -0.0771 | 0.392 |
| | (0.0492) | (0.289) | (0.438) | (0.297) | (0.594) | (0.633) | (0.279) | (0.334) |
| high_comp | 0.0632 | 0.203 | -0.0146 | 0.402 | 0.950 | 0.486 | 0.0270 | 0.164 |
| | (0.0503) | (0.275) | (0.399) | (0.286) | (0.580) | (0.607) | (0.271) | (0.315) |
| college | 0.00769 | -0.437 | 0.732* | 0.593* | 0.585 | 1.321 | -0.336 | -0.873* |
| | (0.0550) | (0.342) | (0.393) | (0.322) | (0.648) | (1.052) | (0.322) | (0.462) |
| postgrad | 0.0280 | -0.589 | 0.798 | 0.552 | 0.683 | 2.173* | -0.0525 | -0.945* |
| | (0.0763) | (0.442) | (0.600) | (0.447) | (0.794) | (1.129) | (0.429) | (0.568) |
| loan | -0.0101 | -0.464* | -0.418 | 0.271 | 0.379 | 0.485 | -0.0954 | 0.0558 |
| | (0.0486) | (0.255) | (0.347) | (0.283) | (0.418) | (0.477) | (0.251) | (0.311) |
| Constant | 1.347*** | 1.455*** | 2.206*** | 0.0360 | -3.258*** | -4.053*** | 1.227** | 1.615*** |
| | (0.0720) | (0.528) | (0.853) | (0.512) | (0.893) | (1.260) | (0.487) | (0.605) |
| Observations | 499 | 500 | 500 | 500 | 499 | 499 | 500 | 500 |
| Method | Poisson | Logit | Logit | Logit | Logit | Logit | Logit | Logit |

Robust Standard Errors in Parentheses        *Significant at 10%; **Significant at 5%; ***Significant at 1%

The survey also asked respondents how they compare against their competitors in terms of price (*price*), product and service features (*feature*), product and service quality (*quality*), research and development and design (*randd*), marketing and branding (*marketing*), delivery time (*delivery*), and financial stability (*finstab*). The possible answers were 'our business is at a disadvantage', 'more or less similar', 'our business is at an advantage', and 'can't say'. The variables *price*, *feature*, *quality*, *randd*, *marketing*, *delivery*, and *finstab* take on the value of one if the respondent said they are at an advantage and zero otherwise. Another dependent variable, *adv_sum*, sums up the number of categories wherein the respondent said that the firm is at an advantage.

Finally, we tested for the relationship between membership in a business association and being credit-constrained. Respondents in the survey were asked if they took out a loan in the past two years. For those who answered yes, a follow up question was asked for the source of the loan. And for those who answered no, a follow up question was asked to find out why it did not obtain a loan. A respondent is defined as credit constrained if either 1) the firm did not get a loan and the reason was anything other than there was no need for a loan or 2) it received a loan from informal lenders. The dependent variable *creditconst* takes a value of one if the respondent is credit-constrained and zero otherwise. Logit regression was used to estimate the relationship between being credit-constrained and business association membership. The results of the regressions involving the indicators of how the SME perceives itself against competitors are reported in Table 5. The results of the regression on being credit-constrained are in Table 6.

## Table 5. Regression Coefficients - Membership in Business Association and Perceived Performance Against Competitors

| Variables | (1) adv_sum | (2) price | (3) feature | (4) quality | (5) randd | (6) marketing | (7) delivery | (8) finstab |
|---|---|---|---|---|---|---|---|---|
| orgmember | 0.127 (0.0959) | 0.0697 (0.245) | 0.476** (0.217) | 0.395* (0.212) | -0.192 (0.222) | 0.0860 (0.222) | 0.207 (0.221) | 0.336 (0.232) |
| services | 0.0144 (0.154) | 0.178 (0.398) | 0.238 (0.352) | -0.218 (0.331) | -0.429 (0.329) | -0.0413 (0.341) | -0.0704 (0.344) | 0.680 (0.425) |
| firmage | 0.00503* (0.00265) | 0.00254 (0.00737) | 0.00385 (0.00672) | 0.00421 (0.00649) | 0.00529 (0.00659) | 0.0153** (0.00665) | 0.0108 (0.00665) | 0.0159** (0.00690) |
| medium | 0.112 (0.0967) | 0.0775 (0.234) | 0.0993 (0.212) | 0.139 (0.202) | 0.153 (0.207) | 0.358* (0.210) | -0.0388 (0.212) | 0.465** (0.227) |
| employees | 0.000580 (0.000790) | 0.000744 (0.00201) | 0.00248 (0.00181) | 0.00183 (0.00178) | 0.00179 (0.00180) | -0.000362 (0.00185) | 0.000982 (0.00186) | -0.00113 (0.00196) |
| medium_comp | -0.156 (0.126) | 0.417 (0.335) | -0.386 (0.282) | -0.454* (0.274) | -0.286 (0.279) | -0.493* (0.281) | -0.140 (0.287) | -0.211 (0.301) |
| high_comp | -0.0840 (0.117) | 0.307 (0.328) | -0.303 (0.271) | -0.239 (0.264) | -0.110 (0.268) | -0.271 (0.269) | 0.0578 (0.275) | -0.296 (0.292) |
| college | 0.158 (0.159) | -0.188 (0.351) | -0.00232 (0.327) | 0.581* (0.323) | 0.324 (0.327) | 0.217 (0.328) | 0.253 (0.332) | 0.434 (0.380) |
| postgrad | -0.0888 (0.215) | -0.105 (0.465) | -0.196 (0.439) | 0.446 (0.423) | -0.0620 (0.441) | -0.672 (0.470) | -0.376 (0.462) | -0.103 (0.506) |
| newproduct | 0.0406 (0.0979) | 0.0140 (0.231) | 0.276 (0.212) | 0.264 (0.200) | 0.103 (0.205) | 0.0187 (0.208) | -0.302 (0.206) | 0.0432 (0.225) |
| loan | -0.139 (0.121) | -0.267 (0.301) | -0.424 (0.275) | -0.0617 (0.250) | 0.00825 (0.256) | -0.496* (0.274) | 0.00398 (0.260) | -0.318 (0.293) |
| Constant | 0.607*** (0.229) | -1.582*** (0.578) | -1.033** (0.516) | -0.745 (0.494) | -0.549 (0.496) | -0.738 (0.508) | -0.837 (0.512) | -2.261*** (0.611) |
| Observations | 500 | 500 | 499 | 500 | 500 | 500 | 500 | 499 |
| Method | Poisson | Logit | Logit | Logit | Logit | Logit | Logit | Logit |

*Robust Standard Errors in Parentheses*     *Significant at 10%; **Significant at 5%; ***Significant at 1%*

## Table 6. Regression Coefficients - Membership in Business Association and Being Credit-Constrained

| Variables | (1) creditconst |
|---|---|
| orgmember | -0.685* |
| | (0.390) |
| hotelsrestau | -0.111 |
| | (0.429) |
| retail | -0.01000 |
| | (0.351) |
| industry | 0.262 |
| | (0.498) |
| firmage | 0.0151 |
| | (0.00996) |
| medium | 0.0362 |
| | (0.314) |
| employees | -0.0159*** |
| | (0.00516) |
| college | 0.374 |
| | (0.478) |
| postgrad | -0.973 |
| | (0.868) |
| newproduct | 0.806** |
| | (0.343) |
| Constant | -2.449*** |
| | (0.588) |
| Observations | 519 |
| Method | Logit |

*Standard Errors in Parentheses*          *\*Significant at 10%; \*\*Significant at 5%; \*\*\*Significant at 1%*

The regression results suggest business association membership is associated with better market access. Controlling for other factors, members of a business association have access to more geographic markets, using both the ordered and summation variable indicators. They are also more likely to engage in formal partnerships with a large domestic business or foreign firm, particularly sub-contracting, outsourcing, becoming licensed to manufacture a product, or forming a joint venture, strategic alliance, or consortium. They also have a higher propensity to export or at least attempt to export (see Table 3).

Membership in a business organization is also associated with several other important variables, particularly the propensity to expand. Business organization members are more likely to introduce a new product and look for new markets, both domestic and international, than non-members. In contrast, membership in a business organization is not associated with expansion by improving a new product, buying new equipment, and hiring more employees. Business association members are also less likely to be credit-constrained.

These results validate some of the earlier discussed findings from the survey and the KIIs. They also empirically support arguments in the conceptual literature outling how business organizations benefit their members. Although it is difficult to infer direct causation using these regressions, they help corroborate the answers of the interview and survey respondents. These results can also help when designing policy recommendations to help SMEs address market access problems.

# SUMMARY, CONCLUSION, AND POLICY RECOMMENDATIONS

## A. SUMMARY AND CONCLUSIONS

Small and medium enterprises constitute a very important sector in the Philippine economy because they account for a large majority of firms and about two-thirds of employment. However, they suffer from low productivity compared to large firms. One of the major contributors to this is the lack of market access. Key informant interviews suggest common sources of market access problems, including inadequacies in business operations (such as the lack of access to proper facilities and technologies), human resource constraints, difficulties in complying with standards and regulations, inability to compete with competitors, inadequate infrastructure and distance to markets, marketing and branding, the lack of access to finance, the lack of access to market information, and shifting consumer preferences.

This study also looked at the influence of business organizations on SME development in the Philippines in general as well as addressing market access problems specifically. In a random survey of 530 SMEs in Metro Manila, Philippines, more than 90 per cent of respondents who were members of a business organization said membership was either important or very important. The most commonly cited benefits of business association membership among survey respondents were business advice from organization members, access to expanded markets, increased access to supplies and inputs, better access to pricing information, and increased bargaining power over suppliers.

The key informant interviews also said belonging to a business organization membership helped them comply with international standards and government regulations, as well as with lobbying and policy advocacy, branding and advertising, and facilitating networking, coaching, and shared services.

To complement and validate the survey and interview results, this study also statistically analyzed the relationship between business organization membership and indicators of market access and other variables important to SME development. The regression results suggest membership in a business association is indeed associated with better market access. Members of a business association have access to more geographic markets, are more likely to engage in formal partnerships with a large domestic business or a foreign firm and have a higher propensity to export or at least attempt to export.

# B. POLICY RECOMMENDATIONS

Based on the discussions and analyses, we formulated policy recommendations on how to improve SME market access in the Philippines. These recommendations are intended for Filipino SME owners and managers; and for third-party institutions involved in SME development, i.e. government agencies and business organizations.

## 1. SMEs Should Take Advantage of Alternative Markets, Particularly Online.

Although the use of internet-based sales platforms may require significant investments from SMEs as well as notably different skill sets and marketing expertise, SMEs lose out on a significantly growing market if they do not engage in online product distribution and display. SMEs may start with simpler, less expensive platforms such as online sales websites and then gradually move to more complex platforms such as the firm's own website with sales capability.

Business associations can provide information and support to help SMEs engage in online sales. For newer SMEs, this support includes introducing them to online sites where retailers can sell their products. For more established businesses, this includes providing training for online marketing and running an online sales platform. If operating a website is too expensive for one SME, business organizations can pool similar SMEs together and help them establish a common online platform where everyone can sell their products. This may also not only be done by business associations but by the government as well.

## 2. Build SME Capacity to Meet Regulatory and Quality Standards.

This is especially applicable to international markets. Many SMEs do not have the capacity to meet quality or regulatory standards which is the first step to penetrating export markets. The primary reasons for this are the lack of funding, technical know-how and access to technology. Government agencies and business organizations can help address this by conducting compliance training and informational seminars. While compliance and technology can be expensive, government agencies and business organizations can assist SMEs by helping them pool their resources to acquire knowledge and technology for everyone's use. Business associations and government institutions may also serve as guarantors if credit financing is required to acquire these technologies.

## 3. Look for New Market Niches Where Competition is Not Yet Too Intense.

Many SMEs find it hard to compete with large, established companies. While the Philippines has a newly-implemented competition law, it is still beneficial for SMEs to tap into new markets and establish early-mover advantages. These could either be new geographic markets or markets for new, slightly modified products.

However, as discussed earlier, many SMEs have limited capability to do this; and this is where business organizations can help. Through its networks and members, business associations can provide information about untapped market

niches, or even fund market research studies that will show products and locations with potential for growth.

## 4. Explore Shared Services.

SMEs can collaborate to use or create a bank of shared services, including inputs, equipment, or services available to more than one firm. For instance, market information on demand, tastes, preferences, and capacity of consumers to pay may be expensive if paid for by one firm. However, if SMEs with similar products share the information, the cost per firm will be lower. The same holds true for product delivery by similar firms whose production plants are near each other but far from the market. These firms can purchase or lease a large delivery vehicle and cater to the transportation needs of several firms. Equipment and technology can also be shared.

Business associations can help. Through their network and members, they can facilitate the formation of SME groups large and similar enough to share services. SMEs, on their own, may not have access to networks that can form these groups.

## 5. Promote Linkages and Partnerships Between SMEs and Big Businesses or Foreign Firms.

Large businesses are important markets because they buy in large quantities. Unfortunately, a majority of SMEs do not tap much in the big business market (Canare, Francisco, & Price, 2017). It would help to have a platform where large businesses could post supply, outsourcing, and subcontracting requirements; and where SMEs could post company profiles and the products and services they offer. Firms could also post partnership, strategic alliance and joint venture opportunities on this platform. It may not be financially feasible for one firm to establish this type of platform, so government or business organizations may be needed to create this service.

(6) Join business organizations and take advantage of available government support. There are government support projects for SMEs such as mentoring programs, trade fairs, and other capacity-building programs. Business and industry associations can help SMEs expand their market horizon.

## 7. Start with Indirect Exporting.

Penetrating international markets is difficult and prohibitively expensive for SMEs for many reasons. Many cannot sufficiently scale up production (exporting is not profitable at low quantities) and do not have market information on preferences and tastes, or the ability to wade through bureaucratic customs' processes. Indirect exporting can help address these problems and allow SMEs to access international markets even with small scale production. SMEs can export indirectly by supplying inputs to firms that export, or by selling products to consolidators. Consolidators purchase high-quality products from smaller businesses unable to scale-up production, and exports to countries with a market for these products. The consolidator bears all the risk and export costs, while giving smaller producers the opportunity to penetrate international markets.

### 8. Regulatory Easing of SME Loans.
One of the sources of SME market access problems is access to finance; and many SMEs are too risk-averse to take out loans. The government may implement policies that improve credit terms to SMEs such as more flexible repayment schemes with longer grace periods.

### 9. Improve Physical and ICT-Related Infrastructure.
Infrastructure improvement cannot be implemented in the short to medium term; it requires the coordination of a wide range of private and public institutions. However, it is too important to be discounted, even for a policy paper that looks at short to medium-term solutions.

### 10. Improve Ease of Doing Business
The Philippines ranks below its ASEAN neighbors in ease of doing business. Implementing reforms to make it easier for a business to register and operate will help SMEs grow and become more competitive. Being able to register a business online and in a timely matter, as can be done in many developed countries, will greatly improve the business creation process because it bypasses many bureaucratic procedures and limits the opportunity for corruption.

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## Endnote

[1]*Metro Manila is composed of 17 cities. It accounts for about 13 per cent of the Philippines' population, 37 per cent of Gross Domestic Product (GDP), and 21 per cent of firms.*