

Assessing the Internal Environment of NGO-Assisted Grassroots Enterprises in the Provinces of Iloilo and Guimaras

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ABSTRACT

The internal environment of a business organization is a source of competitive advantage and allows for sustained growth and viability amidst stiff competition from industry rivals. This paper presents the results of a study that described the internal environments of grassroots enterprises in Iloilo and Guimaras as perceived by the entrepreneurs themselves. A descriptive design was used and primary data was generated through key informant interviews with officers of the enterprises and analyzed using thematic analysis. Findings reveal major themes as follows: there is the formality and legitimacy of organization structures and business operations; final authority for decision-making is shared widely among the membership; the observance of the values of democratic management, active membership engagement in the activities of their enterprises, and volunteerism. Moreover, there is an established financial system in terms of fund generation, budgeting, record-keeping, and regular auditing; and business performance assessed as “successful” since there is continuity of business operations and substantial payment of loans. The study recommends the use of community development interventions to buildup the social capital of the enterprises and conversion of the associations into cooperative enterprises in order to benefit from the preferential option given by the government to cooperatives and economies of scale in production and marketing.

Keywords: Internal environment, grassroots enterprises, structure, core values, financial resources, business performance

INTRODUCTION

Micro-businesses enterprises (MBEs) such as grassroots community-based economic initiatives compose the majority of business enterprises in any country (Kushner et al, 2015; White, 2018). While definitions may vary among countries, MBEs are usually differentiated from small and medium enterprises as business entities that have no more than ten employees (ILO, 2017).

MBEs have been recognized worldwide as a dominant force in poverty alleviation and economic development (Perron, 1999 as cited in Gherhes et al, 2016; Alom et al, 2016; Nishanth, 2014; Tambunan, 2019). MBEs contribute to job creation and income generation (Hassan & Ahmad, 2016; Yahaya et al., 2016; Nishanth, 2014; Tambunan, 2019). By increasing household income, MBEs bring about improved welfare, empowerment, equitable distribution of

wealth and income, and social and political stability (Liedholm & Mead, 2013). Furthermore, MBEs have been found to create opportunities for ethical trade, increase productivity, and facilitate rural development and local tourism (Abellanos, 2014). However, they need training interventions for capability-building as well as business support services (Gherhes et al., 2016; Tambunan, 2019).

In the Philippines, MBEs compose the majority of the business enterprises in the country and are observed to contribute significantly to employment opportunities and poverty alleviation. Recognizing their importance in national development, Republic Act 9178 known as The Barangay Micro-Business Enterprise (BMBE) Act was created to strengthen the BMBEs through the exemption from income tax and the minimum wage; reduction of local government

taxes, fees, and charges; and provision of a credit financing, technology transfer, and other business development assistance. Despite government support, many MBEs still face many challenges in financing, product development, and marketing.

Given their critical roles in the development process, MBEs require a conducive internal organizational environment assisted by adequate business support services so they can survive and contribute significantly to economic development (Alom et al., 2016; Gherhes et al., 2016).

This paper presents the internal environment of Ilonggo micro-enterprises that were assisted by a non-government organization (NGO) engaged in micro-finance as well as technical and organizational strengthening services for community-based MBEs. The data and information are part of a bigger study on social mobilization, enterprise management, and community development in the NGO-assisted enterprises in the provinces of Guimaras and Iloilo. The study aimed to examine the internal environment of these enterprises. Findings were intended to inform external business support so they can be relevant and responsive to membership needs, improve internal organizational competencies, and facilitate business growth and viability of the enterprises.

REVIEW OF LITERATURE

Internal Environment

Organizational environment is seen to consist of both the external and internal environments, which affect organizational performance (Genç, 2014). The external environment is perceived as highly complex and rapidly changing with changes occurring in almost all spheres of human activity - economic, technological, political, cultural, and industrial (Tiwari & Saxena, 2012).

While the external environment lies outside the boundaries of the organization, the internal environment is situated inside the organization and composed of the organization's owners, managers, leaders, employees, and material resources, which determine the organization's capacity to exploit external environmental opportunities (Halmaghi et al., 2017; Al Sanfi & Al Ereeqi, 2006).

Neagu & Udresco (as cited in Halmaghi et al., 2017) view organizational culture as a composite of values, outlooks and ideals that unite organization

members. By uniting members, the internal environment serves as a catalyst for organizational growth and development. However, in the context of a business organization, Wheelen and Hunger (2010) argue that organizational culture can be regarded as simply a component of the internal environment with structure (which includes communication, authority and workflow) and raw materials needed for production of goods and services as the other components.

The internal environment is also perceived in terms of various elements or dimensions that should be in synch with each other for an organization to perform effectively (Peters et al., 1980). The McKinsey 7-S model, which was developed by Thomas J. Peters and Robert H. Waterman, consultants from the McKinsey consulting firm identified seven dimensions of the internal environment. These are strategy, structure, systems, skills, staff, and style, which are interdependent with each other and revolve around shared values of an organization (Peters et al., 1980).

Empirical studies on the internal environment of business organizations reveal that material and human resources perform a crucial role in shaping the organization's competitiveness (Tang, 1998; Hine and Ryan, 1999 as cited in Zain & Kassim, 2012); facilitate creative thinking (Eyton, 1996 as cited in Zain & Kassim, 2012); determine the type of management control systems (Reginato & Guerreiro, 2013); and impact on employee behavior (Qatamin 2007). Moreover, internal competencies or capabilities are indispensable to the success of a business enterprise (Selznick, 1957; Andrews, 1980; Prahalad and Hamel, 1990).

In assessing the internal environment, Barney (1995) said that a firm needs to go beyond using the strengths, weaknesses, opportunities, and threats (SWOT) analysis to identify their strengths to exploit external opportunities and address threats, while overcoming internal weaknesses in order to gain competitive advantage. A firm needs to look for internal resources and capabilities that are valuable, rare, and hard to imitate, or not easily substitutable and use them to gain sustained competitive advantage (Barney, 1995). These resources are classified into tangible resources, which include financial, physical, human, and organizational resources; and intangible resources, which are technological, resources for innovation, and reputation (Barney, 1995).

Furthermore, extant literature on the internal environment shows the complexity of human and non-human or material resources that compose the internal environment of organizations, and define its purpose, significance, viability, and overall, its unique organizational culture. Pearce and Robinson (2014) observed that the experiences of large and small companies show that corporate success is anchored on knowledge and analysis of the external and internal environments of the organization. It is therefore important to identify and assess the internal organizational environment as a basis for determining strategic measures for long-term success. However, there has been a paucity of data and information on the organizational environment in the case of micro-enterprises especially at the grassroots level (Gherhes, 2016), which hinders assisting organizations from designing programs relevant to micro-enterprises (Roberts & Wortham, 2018). This paper addresses such concerns, and contributes to the theoretical and empirical understanding of the internal environment of grassroots MBEs as seen through the lenses of the entrepreneurs themselves.

CONCEPTUAL FRAMEWORK

The analytical framework was adapted with modifications from Wheelen and Hunger's (2001) concept of the internal environment, which consists of structure, core values, financial resources, and business performance.

These variables are defined operationally as follows: 1) structure refers to the type of business organization and organization members with authority for decision-making; 2) core values are principles and beliefs deemed important and practiced widely in the organization; 3) financial resources include fund sources, amount of capitalization, budgeting, record keeping, and auditing; and 3) business performance is the quality of economic and social conditions of the enterprise as perceived by the grassroots entrepreneurs.

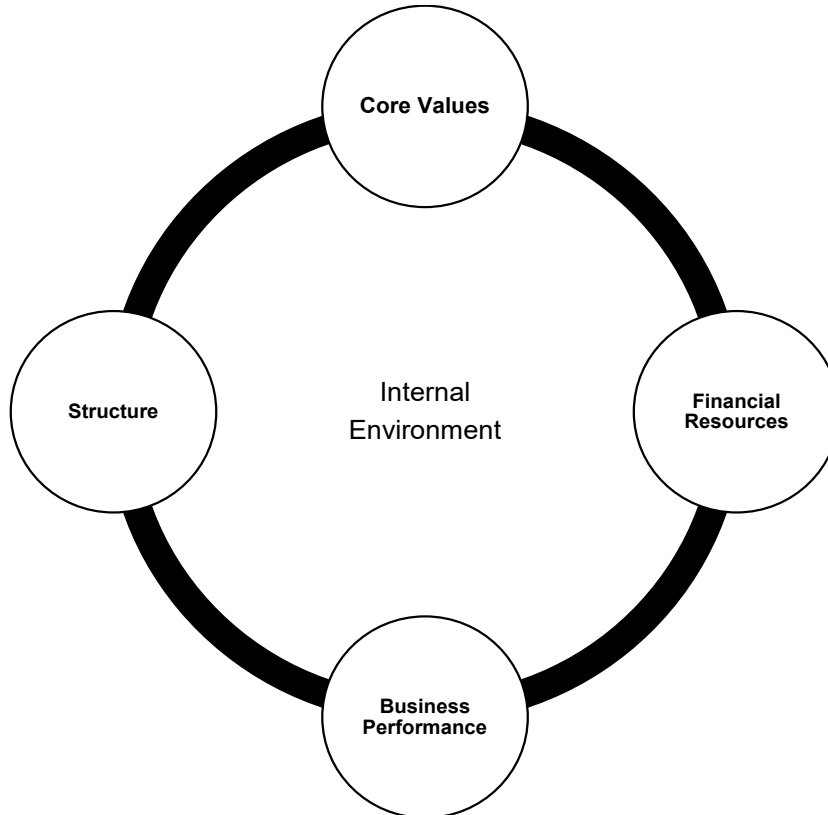


Figure 1. Conceptual Framework of the Study

METHODOLOGY

Using a descriptive research design, primary data on the internal environment of the NGO-assisted Ilonggo enterprises was generated thru key informant interviews with, the president, chairman, and managers of the five respondent-enterprises in the municipalities of Nuevo Valencia, Guimaras as well as Anllao, Barotac Viejo, Janiuay, and Oton in the province of Iloilo.

Permission to undertake the study was sought from the following: local chief executives in the study sites, head of the unit on business development services of the assisting NGO, and chairman/presidents of the respondent-enterprises. Thematic analysis was used to process and interpret data and information obtained from the interviews. The findings of the study were validated with the head of the assisting NGO's business development services and field personnel assigned in the study sites.

RESULTS AND DISCUSSION

Internal Environment

Structure

Business Organization. Four of the grassroots enterprises are organized and registered as associations and only one is a cooperative. Being formally organized, the grassroots enterprises are endowed with legal personality and can engage in legitimate business operations. Their structures are well established in accordance with their Constitution and By-Laws. There is a hierarchy of authority and delineation of responsibilities among the officers and members.

Being formally organized promotes access to government extension services (Danso-Abbeam et al., 2018). The grassroots MBEs operate within the mainstream of government and civil society efforts on micro-enterprise development. The enterprises act as intermediaries between their members and assisting organizations, and serve as conduits of credit and other forms of assistance for their members. In case of financing, they facilitate timely repayment of loans (APEC, 2009). Studies have shown that organized MBEs have higher profits, increased investment, improved access to credit, and a decrease in the share of casual workers (Rand & Torn, 2012).

Thru their enterprises, the grassroots entrepreneurs as small producers are able to pool

their resources together and the synergy of their entrepreneurial efforts yield greater socio-economic returns than when they engaged in business as individual entrepreneurs. Moreover, as community enterprises, they benefit from the economies of scale in production and marketing operations, and as a result, reduce production expenses, increase potential revenues, and benefit from their collective knowledge and skills (Smallbone et al., 2002).

Authority for Decision-making. When asked who manages the business, the officers answered that it is the chairman, manager, and president of their organizations. However, when asked who has the authority to make final decisions in the organization, the officers of the associations replied that it is their Board of Directors (BOD), which is composed of seven committee heads. However, members make final decisions i.e., collectively when they choose their BOD, participate actively in project meetings to decide on the type of projects to undertake and management of these projects. Participatory decision-making is also exercised in organization meetings where membership issues and concerns are discussed and resolved.

In the case of the cooperative, the coop chairman stated that it is the entire membership or General Assembly (GA), which has the final say in all matters affecting the cooperative. According to the Chairman, "members would be voting during meetings to show their decisions on issues presented to them". Besides the annual GA, members would also attend management, and ownership meetings, and participate in the preparation of project proposals. Since authority for decision-making is delegated to the BOD, the Board would solicit suggestions from members and discuss them during board meetings. Board policies are subject to review and approval of the GA during annual as well as special GA meetings.

Furthermore, decision-making in the cooperative is consistent with the coop principle of democratic control. Cooperative principles distinguish cooperatives from other forms of business organizations (Vieta & Lionais, 2015), and are embodied in Republic Act 9520, the Cooperative Code of the Philippines.

Regardless of the type of business organization, decision-making practices of the grassroots enterprises reveal that participatory decision-making is embedded in the organizational culture and facilitates ease of social interaction, problem-solving,

and policy-making among officers and members.

Core Values

Cooperative values include social justice, equality, self-help, self-reliance, and democracy. According to the coop chairman, these values are seen in active membership engagement in General Assembly and other meetings, education and training programs; patronage of the coop business; attendance to coop anniversary activities; member contributions to capital or capital build-up; election of coop officers; and promotion of coop rights. Such cooperative practices indicate the collective ownership of decisions as well as accountability for these decisions by the members themselves. These practices also show that the values of cooperation enhances social capital and organizational integration of the poor and marginalized (Moris, 2014).

The same values of equity, participation, democracy, and mutuality are observed among the associations. As mentioned earlier, democratic management is seen in the election of the association's officers, membership attendance in project meetings, education and training programs, and business undertakings of the enterprises.

The practice of volunteerism is also highly valued among both types of enterprises. When asked regarding their compensation as officers, all of them except one, replied that they do not receive regular salaries. For the one with a salary, the amount of P7,000 per year, which he says is obtained from 14% of the sales of the enterprise, maybe too meager to be considered as a salary considering today's prices, but he says that the amount is just alright with him.

In the case of the coop enterprise, rendering service to the coop on the basis of the member's time and willingness has been a valued practice among cooperatives. This is particularly true among those with small-scale business operations such as in the case of the grassroots coop enterprise.

Financial Resources

Fund Sources. Sources of capitalization for the grassroots MBEs are a combination of membership contributions, income from the business, and external assistance such as grants or donations, and loans. According to the officers, member contributions consist of membership fees in the amount of Php100.00 and monthly fees of Php5.00 for singles and Php10.00 for couples. Revenues from business operations such as

the 10 - 20% of the total net income from the sale of bangus produced by members form part of their organization's working capital.

The officers identified the following external fund sources: 1) grant of Php150,000.00 from a nongovernment organization, which is given in three releases: Php 80,000.00, Php 60,000.00 and Php10,000.00 for the first, second and third releases, respectively; 2) donations; 3) cooperative loan for materials; and, 4) the initial amount of P10,000.00 given by their local government unit (LGU) in the form of materials.

While grassroots enterprises have a variety of fund sources, there is the need to strengthen membership savings and capital build-up to encourage self-reliance and a sense of ownership and responsibility over the business enterprise.

Amount of Capitalization. When asked if they know how much capital they have at present, all of the officers answered "yes" and mentioned the following amounts: Php81,000.00; Php20,000.00, and Php76,000.00. Given such amounts of capitalization, the grassroots enterprises can well be classified as micro-enterprises based on the Barangay Micro Business Enterprise (BMBE) Law of 2002, which defines BMBEs as "business enterprises or entities engaged in the production, processing or manufacturing of products or commodities, including agro-processing, trading, and services, whose total assets including those arising from loans but exclusive of the land on which the particular business entity's office, plant, and equipment are situated, shall not be more than Three Million Pesos" (Section 3 of RA 9178).

On the query whether the present capitalization is adequate or not, only one of the officers answered "yes" while the rest said "no". It appears that the lack of capital pervades almost all aspects of the business enterprise. This problem affects distribution of farm inputs, and described by one of the officers as follows:

"...the dispersal of farm chemicals creates conflict among members if their orders for these items are small and they would not be attended to properly; in case the orders are many, only the order of a few selected ones are being catered to".

The same problem is seen in the handloom weaving or hablon production. Some of the officers reported the following:

"...there is the lack of capital such that some members refuse to work on the products (hablon bags) since if these are not sold, they would not be paid for their work".

"there is limited budget for hospitalization benefits of members".

Such observations show that even social benefits for members are adversely affected by insufficient capital. However, the officers said that they will look for other sources to augment their limited funds. Moreover, these problems will be presented to their manager and additional capital can be obtained from the assisting NGO, which offers loans with reduced rates of interest.

The lack of capital is perceived to be a chronic problem among micro-enterprises (Chua, 2000), and prompts the need for external financial assistance to complement internally generated funds. Micro-entrepreneurs usually need continuing financial assistance to augment their working capital (Chua, 2000). Given their relatively low income, whatever little surplus they have would have to be spread out for production and consumption, as well as housing and education of the children (Chua, 2000).

Financial Planning and Record-keeping. Some of the officers said that they have annual budgets for the business operations of their enterprises, and these are adhered to in actual practice. A few said that they maintain a petty cash fund in the amount of P2,000.00 for operations and keep the rest of the earnings in their depository bank.

The officers also said that their enterprises maintain books of accounts, which include a cash-out book, ledger, cash-in book, journal, disbursement book, cash disbursement journal, and cash book. All of them say that the treasurers of their business enterprises prepare annual financial reports as well as monthly reports that include bookkeeping, inventory, quality control, stockroom report, operational report, and accomplishment report.

Financial Audit. According to the officers their enterprises are subject to regular financial audits. Some of them said that audits are conducted monthly; others report that it is done annually; and one said that it is done every 15th of the month. Auditors include the

in-house auditors of the grassroots enterprises, the auditor from the Cooperative Development Authority (CDA) for the coop enterprise, and an auditor hired from a private auditing firm.

The practice of financial planning, the use of an accounting information system, and preparation of financial reports as well as the conduct of regular financial audits attest to the formality of financial management systems and processes of the grassroots MBEs. This allows for ease and accuracy in assessing the financial condition and overall business performance of their enterprises. Furthermore, the use of formal financial management processes indicates that the grassroots entrepreneurs possess the competencies of good financial managers.

Business Performance

With regard the business performance of their enterprises, all of the officers except for one, observed that their enterprises are managed well. The following comments showed their assessment of their business enterprises:

"Members and officers cooperate and attend the meetings"

"Members are well trained and have skills that can be used for the business".

"The business has been operating for four years now".

For these officers, membership participation, skills and abilities of members relevant to the business and honed thru appropriate trainings, and having a tack record in business serve as indicators for sound business performance.

In assessing the financial performance of their enterprises, the officers gave importance to meeting the financial obligations of their business organizations with the following comments:

"Financial obligations with the members are being met".

"The total loan of P320,000.00 has a remaining unpaid balance of P70,000.00 only".

However, some of the officers pointed out certain problems that beset their enterprises. One had to do with sustainability issues. According to one of the officers, "the business is not continuous". Such problem has been attributed by the entrepreneurs to the lack of continuous orders for their products.

An officer observed problems with a manager's work performance, and gave the following comment:

"The manager should attend to the business regularly, but he comes only during meetings to present his report since he is busy with his own livelihood activities".

Another problem was the meager financial returns of the business. One officer said that "trade fairs register break-even sales only". To address such problems, the officers said that they will do a review of production costs and pricing of their products.

Studies on internal barriers to entrepreneurial growth affirmed such concerns of the grassroots entrepreneurs, and identified psychological or motivational factors (e.g. lack of strong commitment on the part of the manager), lack of management capability, funding, and shortage of orders as problems that hinder the growth of enterprises (Cooney, 2012). Efforts to address these concerns would have to consider internal factors deemed important for business success such as education and training of managers, access to sufficient funds, and market demand (Alom et al., 2016).

CONCLUSION AND RECOMMENDATIONS

Given the size of the micro-enterprise sector and its significant contribution to national development, the delivery of business support services by the assisting NGO as well as other assisting organizations to the grassroots enterprises should be linked to a wider community development approach. It should include community organizing that encourages inclusion and participation; social preparation that emphasizes the values of self-reliance, solidarity, and social justice; and continuing community education that includes strategic business planning; capacity-building on the technical aspects of production and marketing; computerized accounting information system and e-commerce.

With the proliferation of several types of business firms, cooperatives are still deemed as the ideal form of business organization for grassroots micro-enterprises. Grounded in the principles of the internationally recognized principles such as member economic participation, voluntary and open membership, cooperation among cooperatives, and concern for community (International Co-operative Alliance), cooperatives are embedded in their local communities and thus can provide direct supply of

agricultural commodities that residents need (Lake & Leviten-Reid, 2015).

Cooperatives also build community cohesion and foster local development (Vieta & Lionais, 2015). Spear (as cited in Vieta & Lionais, 2015) provides the following inherent benefits of cooperation: address state and market failures, promote the values of trust, self-reliance, participation and produce greater socio-economic benefits.

Recognizing the benefits of cooperation including the preferential options for cooperatives given by the government thru Republic Act 9520 or The Cooperative Code of the Philippines, the grassroots micro-enterprises organized as associations can be gradually transformed to become cooperatives and federated at the provincial level together with the other grassroots enterprises already organized as cooperatives. As a federation, business assistance can be given in the procurement of production inputs and accessing markets. Through their federation, the grassroots enterprises can be assisted to establish backward as well as forward linkages. These will enable member enterprises to share common procurement methods, processing technology and infrastructure, and storage facilities for their agricultural produce as well as access to more lucrative local markets for their products and services.

With the synergy of assistance from the assisting NGO, the LGUs concerned, and civil society, the institutional resources and capacity of the grassroots enterprises can be harnessed towards sustained business growth. This will allow the grassroots entrepreneurs to work towards their own desired futures with greater confidence and assist their communities towards self-reliance and empowerment.

With improved business performance, the enterprises can well serve as venues for community development (CD). A greater sense of solidarity among members can be achieved thru self-help, felt needs and participation such that the enterprises become the agency for social transformation and community development (Bhattacharyya, 2004).

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