

Entrepreneurship in the Philippines: 2014 Report

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Message from the Chancellor



First of all, I would like to congratulate the project team led by Dr. Aida Licaros Velasco for coming up with this very timely and relevant report on the Philippine entrepreneurship experience and prospects. I also take the opportunity to thank the International Development Research Centre and the Angelo King Institute, whose support has made this project possible.

Unemployment and poverty have remained two of the most critical problems of our country for several decades. They are intricately woven such that the presence of the former presupposes the presence of the latter. Efforts at and approaches to eradicating poverty have been varied, perhaps as many as its perceived causes and observed experiences. The World Bank Group has regarded the entry of entrepreneurs via small and medium businesses as vital to the strengthening of the two fundamentals of poverty reduction—job creation and economic growth.

The *Entrepreneurship in the Philippines: 2014 Report* augurs well in enabling a better understanding of how entrepreneurship can fuel our country's economic growth by addressing the prevailing gaps and infrastructure needs, and making sure that supporting policies are in place. It bodes well with the efforts and initiatives that are intended to encourage SME start-ups that would see long-term entrepreneurial success and sustainability.

In an economy where entrepreneurs are regarded as “business leaders and innovators of new ideas and business processes,” the report resonates with the fact that for SMEs to optimize their potentials as harbingers of hope for our ailing economy, they have to thrive in an ecosystem that provides a fertile ground for their growth and the needed infrastructure for sustainability.

Dr. Gerardo Janairo

Foreword



The De La Salle University-Angelo King Institute for Economic and Business Studies (DLSU-AKI) is delighted to share with various stakeholders the publication of the monograph *Entrepreneurship in the Philippines: 2014 Report*. The report is part of the Global Entrepreneurship Monitor (GEM) research project, the most extensive network on the study of entrepreneurship in the world today. The monograph is also a sequel to the 2013 Philippine Report published by the DLSU-AKI.

The role of entrepreneurs in economic development has been documented in several studies over the years. Through his classic work *The Theory of Economic Development* (1934), Joseph Schumpeter has argued on the significant function played by entrepreneurs in the process of economic transformation. Entrepreneurs are crucial in the establishment of new ventures, the introduction of new products, and the improvement of production and distribution processes derived from innovations and inventions. This process of invention, innovation, and imitation creates an economic disequilibrium that brings about great value added, immense employment opportunities to a growing labor force and economic dynamism.

Although the role of entrepreneurs in developing economies including the Philippines does not approximate the vast contributions of Schumpeterian *mega entrepreneurs*, these entrepreneurs nonetheless have made a dent in alleviating poverty, creating employment opportunities and making growth more inclusive with their small and micro enterprises.

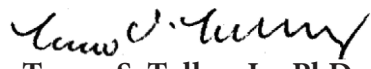
With the release of the monograph *Entrepreneurship in the Philippines: 2014 Report*, DLSU-AKI is particularly pleased with its humble contribution to expanding our understanding on the characteristics, intentions, aspirations, and activities of Filipino entrepreneurs. Given the growing unemployment, particularly among the youth, the contents of the report make it more imperative that

policies and programs in addressing youth unemployment and creating an environment for inclusive growth should be based on reliable data and robust empirical analysis.

As an academic research institute, DLSU-AKI is investing huge resources in the accumulation of large data sets on various dimensions of the Philippine economy. Together with the report, the GEM project collects databases on entrepreneurship. The databases collected by the GEM project over the years are immensely useful to our researchers and students in business. This will definitely sharpen their analysis and propose appropriate policy interventions.

I congratulate Dr. Aida L. Velasco and her research team from the Ramon V. del Rosario College of Business and the School of Economics of De La Salle University for their insights on the study of entrepreneurship in the Philippines. In addition, through the GEM project and the release of this monograph, these academic researchers were given a chance to sharpen their research and analytical and writing skills.

More power and congratulations.



Tereso S. Tullao, Jr., PhD

Director

De La Salle University-

Angelo King Institute for Economic and Business Studies

Executive Summary

The Philippine sample from 2014 Global Entrepreneurship Monitor comprised of 2,000 individuals, aged 18–64, representing 17 regions in the country, and 36 national experts. Respondents were interviewed according to a framework that considered both the individual and institutional conditions of entrepreneurship.

For this year’s Report, we consider more closely the prospects of micro- and youth entrepreneurship in alleviating poverty and unemployment within the country. In the last few years, research particularly by Banerjee and Duflo at MIT’s Poverty Action Lab has suggested that some of the optimism about entrepreneurship as a bridge out of poverty in developing countries has been misplaced, and that entrepreneurial success is harder to come by than frequently believed. We find broad support for these ideas from the 2014 Philippine survey, and use this as an opportunity to rethink entrepreneurship strategy and policies in the country.

SELECTED KEY FINDINGS

1. Within ASEAN, Philippine respondents registered the strongest entrepreneurial intentions, perceptions of personal capabilities and market opportunities, as well as the lowest fear of failure. This matches the high social regard for entrepreneurs within the Philippines;
2. These motivations have translated into the highest rate of new business formation or “nascent entrepreneurship” in the region, and the second-highest rate of early-stage entrepreneurship;
3. These encouraging statistics are tempered by the highest rate of business discontinuance in the region. The leading reasons for this are low profitability, depletion of capital, and personal emergencies;

4. Furthermore, there is reason to be concerned over the basis for long-term entrepreneurial success. Many respondents admit turning to entrepreneurship because of a lack of options in the formal labor market. Many also admit to selling products for which many competitors already exist, and data show very low levels of international market penetration. Entrepreneurial success, in the sense of crossing the threshold from micro- to small, and from small to medium enterprise, is still held back by these deficiencies.

RECOMMENDATIONS

1. Continued expansion of social insurance and anti-poverty programs such as 4Ps, especially those with a gender component. Apart from their impact on education and health, these programs directly improve entrepreneurial conditions by reducing the hidden costs of running a business and the risks of business failure. As in many developing countries, progress can be made by solving “last mile” problems of poor coordination and lack of awareness, by better-designed interventions that make it easier for individuals to help themselves;

2. More emphasis on “second-generation” problems of entrepreneurial survival and growth, rather than “first-generation” across-the-board encouragement for potential entrepreneurs. Public agencies may wish to focus more resources on selecting “winners” with the greatest potential for innovating, scaling up, and penetrating international markets, rather than funding as many start-ups as possible, or providing basic training. Along with this should come more interventions to encourage pooling resources and risk, rather than relying on the limited network of one’s family and friends, as most micro-entrepreneurs still do;

3. Finally, with educational reforms creating an entrepreneurship track for the youth, the message must be balanced: success is possible, but innovation and internationalization are key; remaining a micro-enterprise means that a business is perpetually at risk.



PART 1

The Global Entrepreneurship Monitor (GEM)
Model

1.1 The GEM Research Project

The Global Entrepreneurship Monitor (GEM) research project studies entrepreneurship in different countries to better explain the role of small and medium enterprises in economic development. Sixteen years after the initial 1997 study by Babson College and London Business School, over 100 countries now participate. GEM is now the largest worldwide study on entrepreneurship.

The following questions motivate the project:

- a. What patterns in entrepreneurial attitudes, activity, and aspirations within countries can help stakeholders provide annual national assessments of their entrepreneurial sector?
- b. Can entrepreneurial activity across different countries, geographic regions and levels of development be meaningfully compared?
- c. How does entrepreneurial activity influence economic growth?
- d. What factors encourage or hinder entrepreneurial activity; and
- e. What policies would be most effective at enhancing entrepreneurial capacity within individual countries?

Beyond general theory and facts, GEM has also pursued special topics on trends and the future of entrepreneurship. Among these are micro-financing of small-to-medium enterprises (SMEs), women and entrepreneurship, “high-growth high-expectation” entrepreneurship, social entrepreneurship, education and training, youth entrepreneurship, entrepreneurial employee activity or corporate entrepreneurship, youth entrepreneurship in Sub-Saharan Africa, and entrepreneurship, competitiveness, and development.

GEM uses two surveys as its primary research instrument: the Adult Population Survey (APS) and the National Experts

Survey (NES). More than 206,000 individuals participated in the 2014 APS while 3,936 national experts from 73 countries were surveyed for the 2014 GEM study.

1.2 The GEM Conceptual Framework

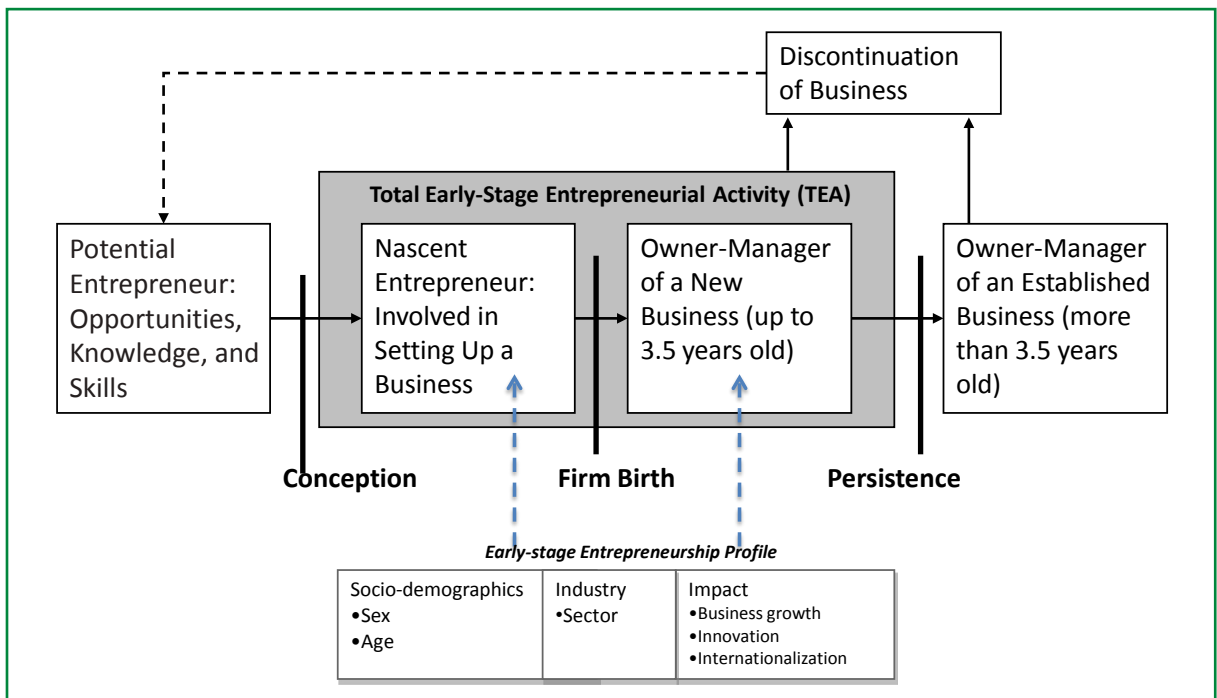
GEM defines entrepreneurship as “*any attempt at new business or venture creation, such as self-employment, a new business organization, or the expansion of an existing business by an individual, a team of individuals, or an established business*” (Reynolds et al. 1999, p. 3). GEM tracks the entire entrepreneurial process: from the stage where a potential entrepreneur is identified to when the business is considered established.

Some useful definitions follow:

A potential entrepreneur in the pre-conception stage is one who intends to set up a business or pursue self-employment within the next 12 months. *A nascent entrepreneur in the conception stage* is one who has started a business within the last 12 months. A firm’s *birth* covers the first year of a business and its *maturity* is said to be attained after three and a half years. Within the GEM framework, this period of 42 months makes up the so-called *Total Early-Stage Entrepreneurial Activity* or TEA. Businesses in existence for longer than 3.5 years are considered *Established Businesses* or EB.

The formal depiction follows in Figure 1.

Furthermore, within the model, the type of entrepreneurial activity (*high growth, innovative, global*) is influenced by two factors: the country’s social values toward entrepreneurship as well as the individuals’ psychology, demographic characteristics, and motivations. On the other hand, social



Source: GEM 2014 Global Report, p. 19.

Figure 1. GEM Model of the Entrepreneurship Process

and individual attitudes toward entrepreneurship are enhanced or discouraged by the social, cultural, economic, and political conditions within a country. These factors are composed of *basic economic requirements*, *efficiency enhancers* and the level of *business sophistication* within the country. These relationships are illustrated in Figure 2.

Figure 2 also measures the variables that comprise basic requirements, efficiency enhancers, and innovation and entrepreneurship. The data for these were gathered from the National Experts Survey (NES). On the other hand, data on individual entrepreneurial attitudes, activity, and aspirations were obtained from the Adult Population Survey (APS). Together, these data describe the state of Total Early-Stage Entrepreneurial Activity (TEA) and Established Business (EB) in the country entrepreneurship's contribution to the overall development of the economy.

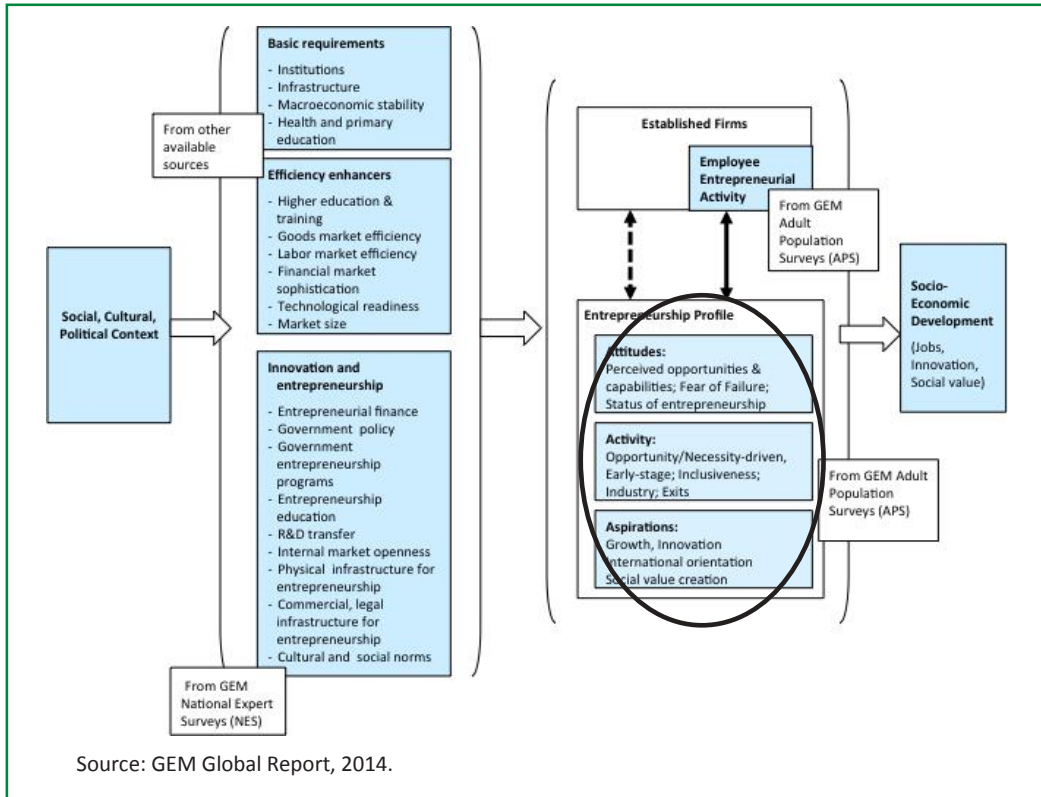


Figure 2. GEM Operational Framework

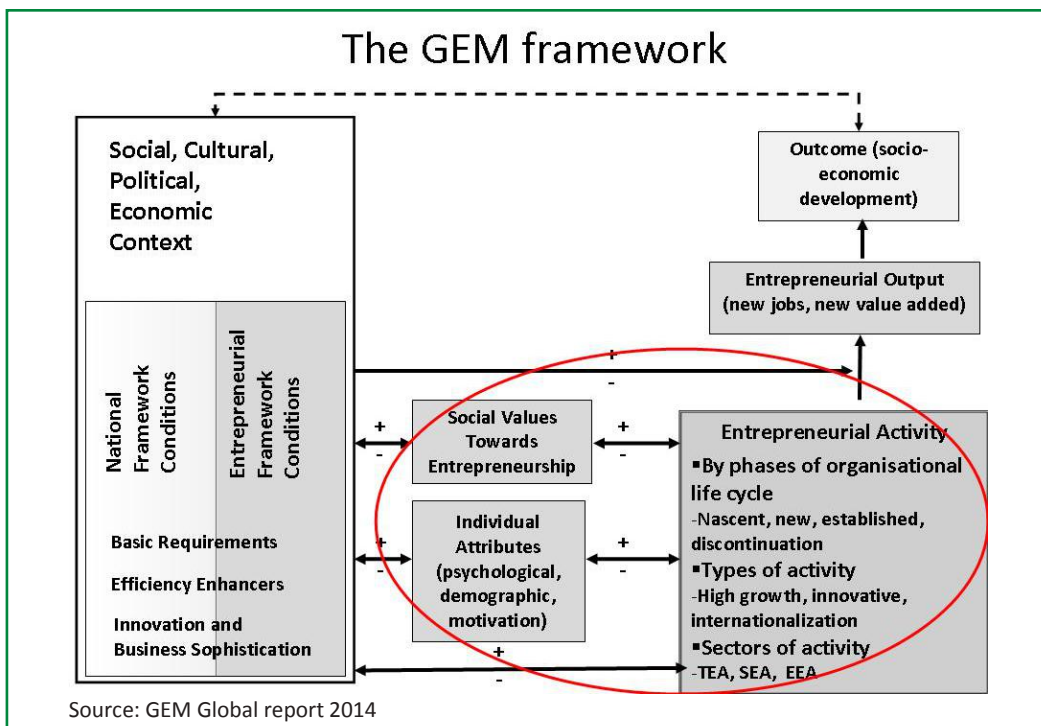


Figure 3. GEM Revised Conceptual Framework for 2014

Finally, Figure 3 defines the social, cultural, political, and economic context of entrepreneurship, prompted by the *Twelve Pillars of Competitiveness* from the World Economic Forum Global Competitiveness Index, combining them with the nine components of GEM's Entrepreneurial Framework Conditions to generate a revised conceptual framework for its 2014 Report.

1.3 How GEM Measures Entrepreneurship

When GEM measures entrepreneurship, it looks at how entrepreneurial activity within the population is influenced by attitudes and perceptions toward entrepreneurship, and the types of activities enterprises are engaged in. These are measured separately for TEA and EB. The specific variables and their operational definitions are presented in Table 1 below:

Table 1. *Operational Definition of GEM Variables to Measure Entrepreneurship*

Variable	Definition
Potential Entrepreneurs	Those who see opportunities in the environment have the capacity to start a business and are undeterred by a fear of failure
Intentional Entrepreneurs	Those who intend to start a business within the next three years
Nascent entrepreneurs	Those who have started a new business, but have not yet paid salaries nor wages for more than three months
New entrepreneurs	Those who are running a new business that has been in operation from three to 42 months
Established business owners	Those who are running a mature business in operation for more than 42 months
Discontinued entrepreneurs	Those who, for whatever reason, have exited from running a business in the past year

GEM measures both the qualities inherent to an entrepreneur (attitudes and perceptions, activities and aspirations) as well as the environmental factors surrounding an entrepreneur. Collectively, these are referred to as *Entrepreneurship Framework Conditions* (EFCs).

Data on entrepreneurial aspirations, attitudes, and activity, were obtained from the Adult Population Survey conducted among at least 2,000 individuals aged 18–64. The survey collected information on the different phases of entrepreneurial activity, from entrepreneurial intention to early-stage entrepreneurial activity to the point at which businesses are considered established.

To measure entrepreneurial attitudes, GEM surveys respondent motivations to start a business and risk-taking propensity. The motivation to start a business is classified as either necessity- or opportunity-driven. Necessity-driven entrepreneurs are those who start a business mainly because there are no other options available through which to earn a living, while opportunity-driven entrepreneurs are those who start businesses to exploit opportunities to increase their incomes or establish their financial independence.

On the other hand, the macro-level entrepreneurial framework conditions were verified through interviews with at least 36 national experts. These experts were interviewed on the following EFCs: financial support, general government support, physical infrastructure, commercial and service infrastructure, specific regulations, market openness, R&D transfer, entrepreneurship education, and cultural norms and values related to entrepreneurship, items that form the World Economic Forum's 12 Pillars of Competitiveness. At least four experts for each of the nine factors were interviewed. A minimum of 25% of these experts had to be entrepreneurs, and 50% had to be professionals.



PART 2

The Philippines and GEM 2014 Global Report

2.1 Entrepreneurial Attitudes and Perceptions

Among all the countries in South East Asia, Philippine respondents registered on average the strongest entrepreneurial intentions and perceived capabilities and opportunities. They also placed the highest premium on entrepreneurship as a good career choice and considered entrepreneurship well supported within society, particularly by the attention paid by media to entrepreneurs and their activities. Philippine respondents placed higher hopes on entrepreneurship compared to the country averages across all types of economies. They also expressed lower fear of failure in entrepreneurial activities compared to the regional average.

Among all the countries in South East Asia, Philippine respondents registered on average the strongest entrepreneurial intentions and perceived capabilities and opportunities

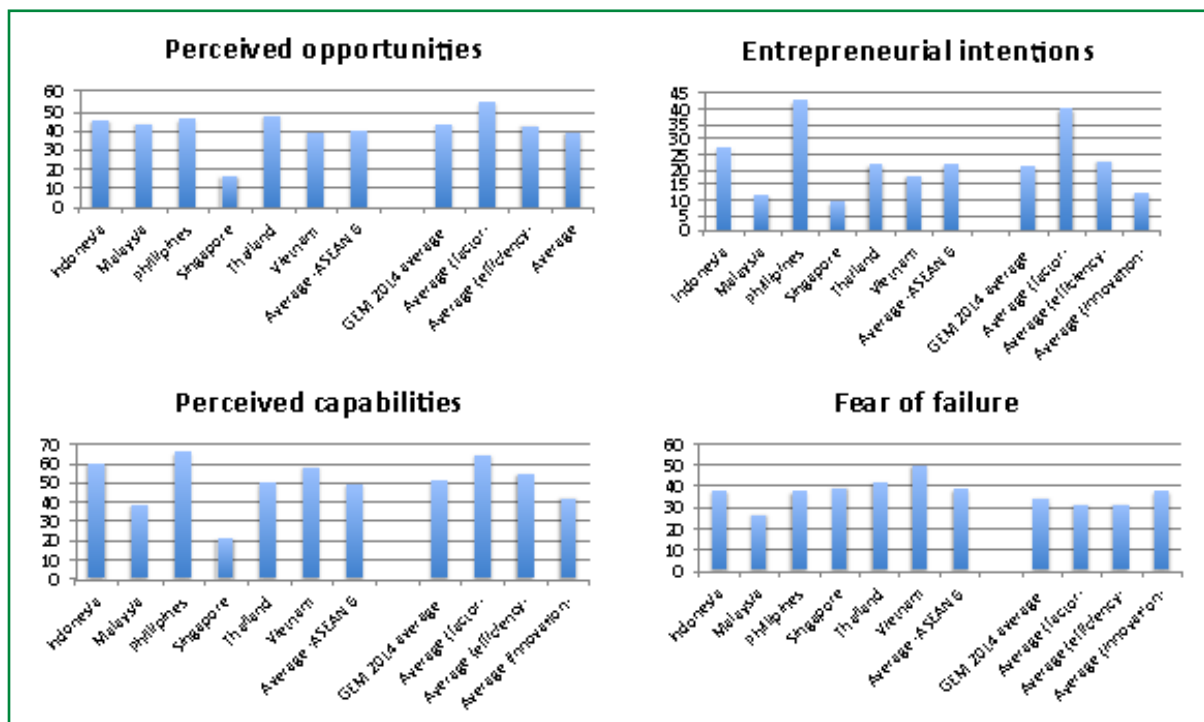


Figure 4. Entrepreneurial Attitudes and Perceptions: Philippines vs. Other Economies

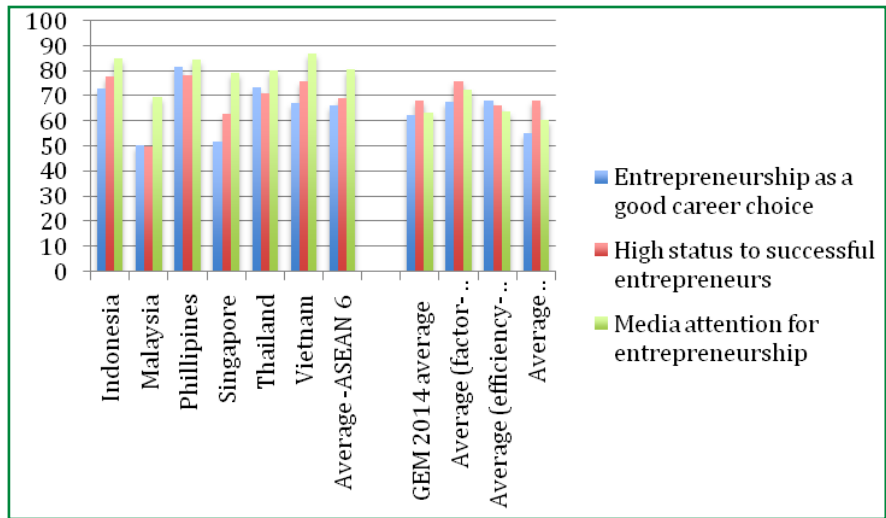


Figure 5. Society-Wide Views of Entrepreneurship Across ASEAN

2.2 Entrepreneurial Activity

Consistent with the strong positive interest shown by Filipinos in putting up a business, the country has the highest rate of nascent entrepreneurship in ASEAN and has the second to the highest rate in early stage entrepreneurship (TEA). It is telling, however, that its proportion of established businesses (those having survived at least 3.5 years) is one of the lowest in the region and is consistent with the average registered for a factor-driven economy.

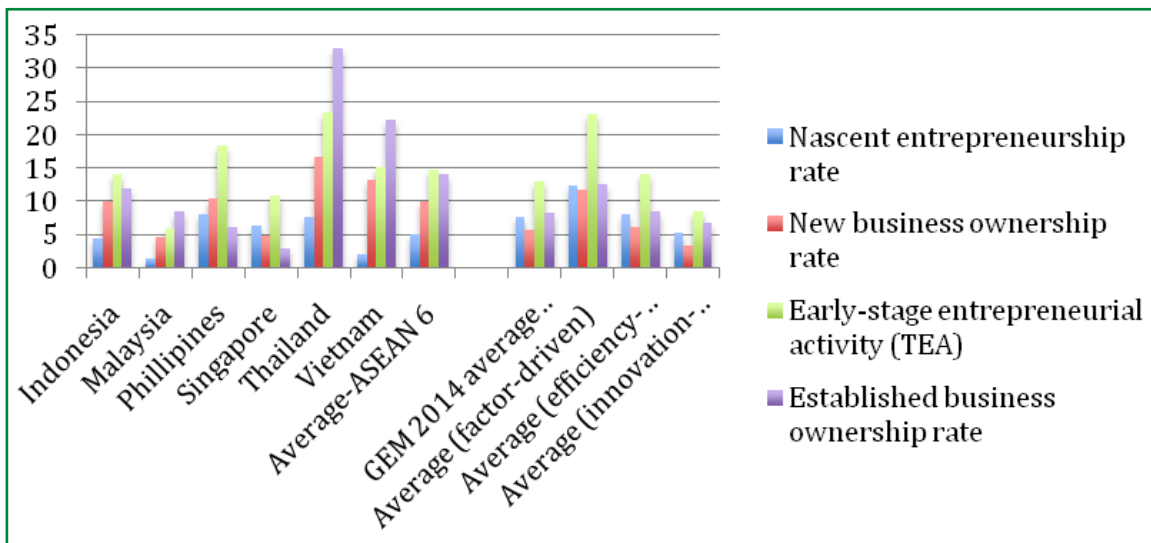


Figure 6. Entrepreneurial Activity: Philippines and other Economies

Again, although entrepreneurial interest and optimism are very high, the country nevertheless possesses the highest business discontinuance rate among ASEAN countries. The high discontinuance rate leads to only a small number of entrepreneurs able to cross the line between start-ups and established businesses. Among the leading reasons for quitting the business are low profits, lack of capital or the depletion of capital, and personal emergencies. Among all ASEAN-6 countries, the Philippines has the highest number of businesses exiting due to profitability issues. From here, one may surmise that while many Filipinos have positive views about the prospect of becoming entrepreneurs because they believe that they have the capabilities to match the opportunities and start businesses, their actual capabilities to continue and grow their businesses remain underdeveloped.

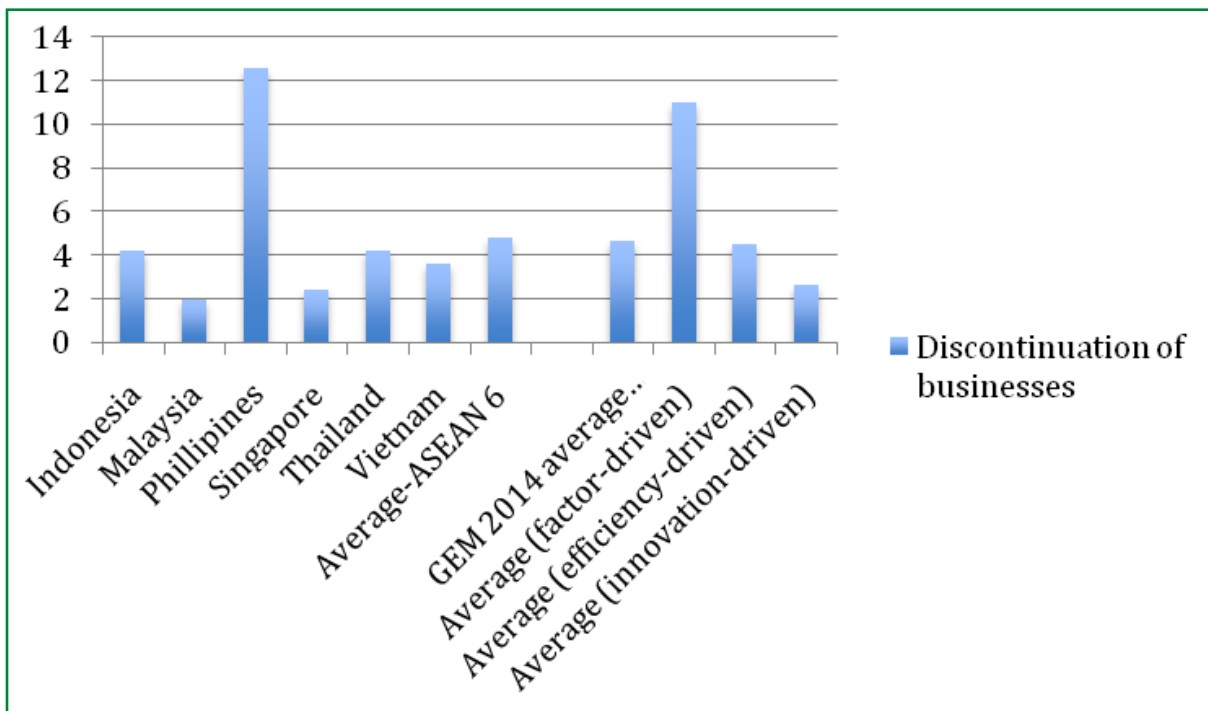


Figure 7. Business Discontinuance Among ASEAN Countries

Table 2. *Reasons for Business Exit Among ASEAN Countries in 2014*

Reason	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Opportunity to sell	2.77	0	0.5	2.77	2.61	0
Business not profitable	19.83	19.59	40.45	28.13	17.4	12.86
Problems getting finance	26.39	21.75	24.48	16.76	14.7	15.71
Another job or business opportunity	14.73	14.38	4.11	9.38	2.89	14.29
Exit was planned in advance	13.16	9.86	0.5	4.33	0.79	7.14
Retirement	2.47	0	0	7.92	4.96	5.71
Personal reasons	18.97	34.42	24.4	30.72	40.92	28.57
Incident	1.03	0	5.56	0	15.74	15.71

2.3 Entrepreneurial Aspirations

At the macro level, the government continually encourages more Filipinos to become entrepreneurs, as part of the solution to unemployment. However, survey results indicate that many who become entrepreneurs do not cite job creation for the country as their priority—only 0.86% of Filipino entrepreneurs said they aspire to create 20 or more jobs within the next five years. This proportion is one of the lowest in ASEAN.

Survey results indicate that many who become entrepreneurs do not cite job creation for the country as their priority.



Table 3. *Jobs Generated by Entrepreneurs: Philippines and Other Economies*

Country	No jobs	1–5 jobs	6–19 jobs	20 or more jobs
Indonesia	0.63	45.87	4.65	1.22
Malaysia	26.96	61.66	11.39	0.00
Philippines	39.23	48.97	5.59	1.75
Singapore	9.68	32.05	23.17	19.37
Thailand	47.16	33.00	7.75	1.14
Vietnam	18.63	63.40	12.42	4.25
Average ASEAN-6	23.72	47.49	10.83	4.62
GEM average	15.40	40.96	14.68	9.00
Average (factor-driven)	13.95	50.51	13.30	5.98
Average (efficiency-driven)	12.45	40.30	14.70	8.02
Average (innovation-driven)	19.05	38.38	15.14	11.09

Table 4. *Job Growth Expectations Over Next Five Years: Philippines and Other Economies*

Country	No jobs	1–5 jobs	6–19 jobs	20 or more jobs
Indonesia	65.62	30.00	3.81	0.57
Malaysia	41.88	55.61	2.51	0.00
Philippines	56.11	37.95	5.07	0.86
Singapore	38.14	26.09	19.30	16.47
Thailand	72.11	21.24	5.69	0.97
Vietnam	50.00	42.48	5.88	1.63
Average ASEAN-6	53.98	35.56	7.04	3.42
GEM average	44.43	35.89	12.44	7.24
Average (factor-driven)	39.38	45.51	10.55	4.56
Average (efficiency-driven)	45.47	35.27	12.84	6.42
Average (innovation-driven)	45.05	33.22	12.66	9.04

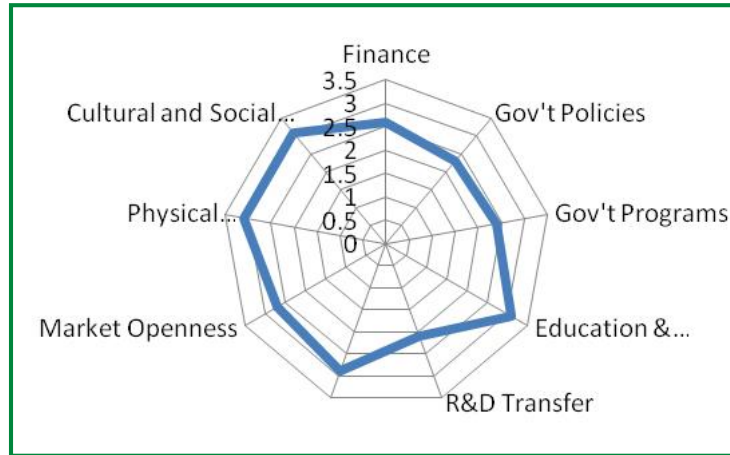
2.4 Entrepreneurial Factor Conditions

Thirty-six experts from government, industry, the academe and civil society contributed to the National Experts Survey and assessed the conditions within which Philippine entrepreneurs operate. They assessed nine entrepreneurial framework conditions or EFCs, namely: government policies and programs for entrepreneurship, education and training, research and development transfer, commercial and services infrastructure, market openness, physical infrastructure and cultural and social norms. Experts rate the EFCs with regards to how the EFCs enhance (given a rating of 5) or hinder (given a rating of 0) the growing firm's performance. More than half of the national expert respondents were entrepreneurs.

On a regional level, as presented in Figure 9, the country has lower ratings compared to other countries in ASEAN. Experts from the Philippines rate the country lowest in government policies, R&D transfer, and market openness. Although there are policies and laws seemingly supporting entrepreneurship in the country, the population is not well informed on the existence of these policies. To add, there are inconsistencies in the implementation of policies. Research and development on technology and products are given less priority by the government with very low budget allocation on R&D as % of GNP compared to other countries in the region. The high rating on education is not supported by innovation which is very much needed in the pursuit of global competitiveness.

*Although there are policies and laws
seemingly supporting entrepreneurship in the
country, the population is not well informed
on the existence of these policies.*

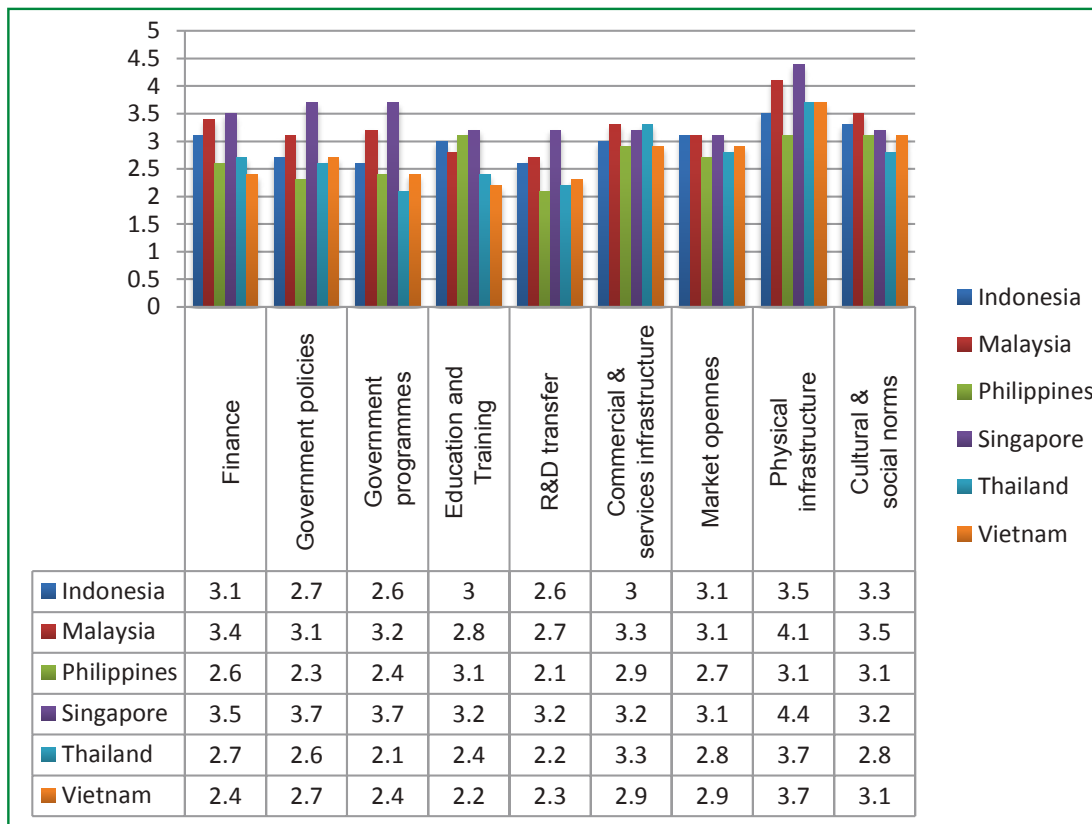




Source: GEM 2014 Philippine NES

Figure 8. Philippine Entrepreneurial Framework Conditions*

* 5 – EFC highly enhances growing firm’s performance; 1- EFC hinders growing firm’s performance



Source: GEM 2014 Global report

Figure 9. GEM Entrepreneurial Framework Conditions: The Philippines and ASEAN-6

The assessment showed more challenging Entrepreneurial Framework Conditions for the Philippines, compared to other countries in the region. Education and training, physical infrastructure and the society's support for entrepreneurship were the only factors seen to support entrepreneurship in the country. Although respondents rated the population as highly literate, and most entrepreneurs finished secondary or college education, training and entrepreneurial capacity building have not been given much attention in formal education. Education for the most part remains focused on training students to be employees. Among the factors cited as constraints to entrepreneurship in the country are:

1. Government policies that are not properly disseminated and that are inconsistently implemented;
2. Physical and services infrastructure that are not extensive enough to bring goods to the market and provide adequate customer service;
3. A lack of management skills and financial expertise among small and medium business owners to grow and expand their businesses; and
4. Limited financial support available from the formal financial institution both for debt and equity funding.

Education and training, physical infrastructure, and the society's support for entrepreneurship were the only factors seen to support entrepreneurship in the country.



Among the factors that support entrepreneurship, the following were cited:

1. Available government programs to encourage start-ups;
2. Education reforms and a trainable population that may be sensitized to entrepreneurial opportunities;
3. Society's high regard for entrepreneurship.

From these follow recommendations to improve the success rates of entrepreneurial undertakings within the country:

1. Policies should be extensively disseminated and implementing guidelines must be designed to be clear and easy for entrepreneurs to follow;
2. Education should also focus on teaching creativity, innovation, technology adaptation for commercialization of products and services as well as for managing small and medium enterprises. Vocational courses to teach entrepreneurship and skills for manufacturing products and delivering services should also be expanded;
3. Government programs and policies should consider the costs of compliance for businesses and should seek to minimize them.



PART 3

Entrepreneurship in the Philippines

3.1 The Philippines: Economy, People, and Government

The Philippines, a factor-driven economy on the way to becoming efficiency-driven, has registered GDP growth averaging 6.3% over the last five years (2010–2014). GDP growth was 6.1% in 2014, 7.2% in 2013, and 6.8% in 2012. To date, Philippine GDP as of the second quarter of 2015 is 5.6% lower than the GDP of the same period last year but higher than last quarter’s GDP of 5.0%.

Table 5. *The Philippines at a Glance*

Indicators	Value
Population (2014)	99.14 million
Land Area (x 1000 sq. km.)	300
Density (persons/sq. km)	308
GNP Growth Rate (Q2 2015)	5.0%
GDP Growth Rate (Q2 2015)	5.6%
Phase of Economic Development	Factor-Driven
Geography	Archipelago (7000+ islands)
Major Islands	Luzon, Visayas, Mindanao
Major Minerals	Gold, Copper, Iron, Nickel
Competitive Advantage	Large domestic market, higher education and training, buyer sophistication
Form of government	Presidential, power equally divided among executive, legislative, and judicial branches
Development Plan Focus (2010–2016)	Inclusive growth
Government Priorities (2011–2016)	<ul style="list-style-type: none"> • Anti-corruption/transparent, accountable and participatory governance • Poverty reduction and empowerment of the poor and vulnerable • Rapid, inclusive, and sustained economic growth • Just and lasting peace and rule of law • Integrity of the environment and climate change mitigation and adaptation
Exports (US\$ million, August 2015)	5,130
Imports (US\$ million, July 2015)	6,500

Table 5 continued...

Balance of Trade (July 2015)	USD -1.18 million
Inflation rate (% , September 2015)	0.4
Underemployment rate (% , July 2015)	21.0
Unemployment rate (% , July 2015)	6.5
Peso/US\$ (October 2015)	46
Average Family Income (2012)	PhP 235,000

Source: <https://psa.gov.ph/>, AKI Economic Monitor

Despite doubts over growth prospects and challenges from the external market, the Philippine economy achieved solid growth figures in 2014. Favorable demand and supply side conditions combined with improvements in global market, a recovering US economy and intensifying demand in Asia, led to the 6.1 percent growth in the country's gross domestic product (GDP). Robust household consumption and a strong construction subsector fueled the demand side. In addition, external trade rallied owing to deepening regional integration and a more stable US economy. On the supply side, factors include a dynamic service sector and a more resilient manufacturing sector. However, growth has yet to prove stable as the country recorded a lower GNP of five percent and GDP of 5.6% in September 2015.

Inflation on the other hand continued to stabilize due to lower petroleum prices. Average headline inflation for December 2014 was at 2.7%, below last year's 4.1%. Inflation has further gone down to 0.4% in the second quarter of 2015. On the other hand, the Philippine peso has continuously depreciated in relation to the US dollar, hovering at an exchange rate of PhP46.50 to a dollar compared to last year's currency exchange rate of PhP45. The coming national and local elections are also contributing to some uncertainty in the economic climate within the country.

Government's moves to prioritize sustained economic growth are seen in its global ranking for ease of doing business. This rose from 136 in 2012 to 86 in 2014, as well as its global competitiveness ranking that went from 64th place in 2012–2013 to 52nd in 2014–2015.

Despite improvements to macroeconomic indicators and business competitiveness rankings, poverty incidence in the country worsened from 24.6% in 2013 to 25.8% among the population and from 18.8% in 2013 to 20.0% in 2014 among families. Among sectors, poverty incidence (2012 data) was highest among fishermen (39.2%), farmers (38.3%), children (35.2%), the self-employed and unpaid family members (29%), women (25.6%), and the youth (22%).

Despite improvements to macroeconomic indicators and business competitiveness rankings, poverty incidence in the country worsened from 24.6% in 2013 to 25.8% among the population, and from 18.8% in 2013 to 20.0% in 2014 among families.



Business in the Philippines is dominated by micro, small, and medium enterprises (MSMEs) totaling 944,897 establishments in 2012, an increase of 14% compared to 2011. MSMEs comprised more than 99.6% of all registered establishments in the Philippines. Eighty-nine percent (89.14%) of business establishments are micro industries, while small enterprises account for 9.74%, and medium-sized establishments account for 0.4%. On the other hand, only 4,011 or 0.4% are classified as large organizations. Forty-seven percent (47.5%) of MSMEs are engaged in wholesale and retail trade, repair of motor vehicles and motorcycle industries, 14.5% in information and communication, financial and insurance activities and other

services, 13.71% in accommodation and food services, 12.7% in manufacturing, and 11.51% in human health and social services, arts, entertainment and recreation industries, and real estate.

On the other hand, MSMEs contributed only 35.7% of the total value added with small enterprises contributing 20.5%, medium 10.3%, and micro enterprises the remaining 4.9%. Those engaged in manufacturing also contributed the highest value added despite the smaller number of businesses within this sector.

MSMEs generated 64.97% of total jobs in the country or 4,930,851 jobs. Forty-seven percent of these jobs were generated by micro-enterprises, 41.8% by small enterprises, and 11.2% by medium enterprises.

The government has also instituted programs and passed laws to support entrepreneurship in the country. Focus on developing the youth to be entrepreneurs is supported by a newly-approved law: the “Youth Entrepreneurship Act”, Republic Act No. 10679. The act mandates for basic entrepreneurship education to be incorporated into the 12-year basic education curriculum. Entrepreneurship will also be incorporated in the formal curriculum in higher education as well as in the non-formal training programs to be offered at state universities and colleges.

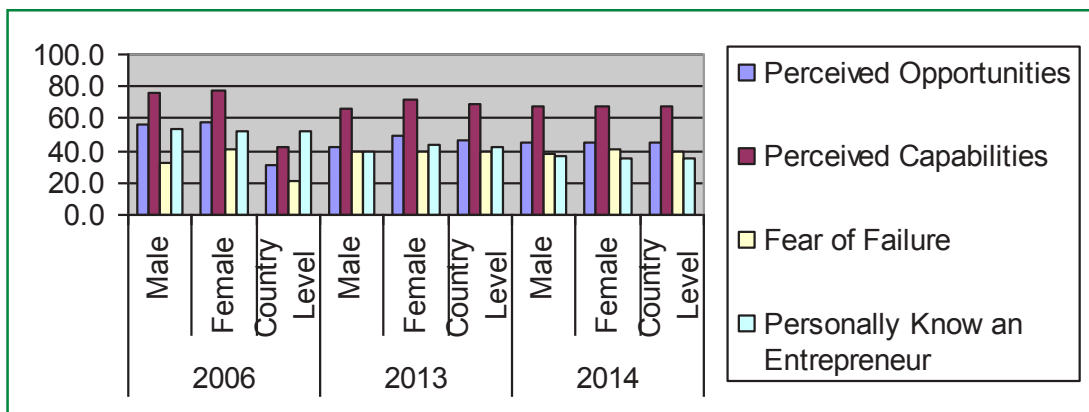
Given the economic performance of the Philippines, the country’s unemployment rate, the dominance of micro-small, and medium enterprises, and the increasing poverty incidence in the country, it is interesting to mine the data on entrepreneurship and the environmental factors for their actual role in growth, development, and poverty reduction. It is also worth studying whether and how entrepreneurship in the country has helped in achieving inclusive growth.

3.2 Philippine Entrepreneurship Profile

3.2.1. Attitudes and Perceptions

Entrepreneurial attitudes in the Philippines remained positive in 2014 with 45.4% of survey respondents believing that there were opportunities available for new businesses in the areas in which they lived, and 67.7% claiming they have the necessary knowledge, skills, and training to capitalize on them. The positive outlook peaked in 2013 with 46.8% and 69.6% respectively, building up on the 2006 statistics of 31.3% and 41.8% on opportunities and capabilities, respectively. However, we observe a downward trend in the proportion of interviewees who maintain that they personally know an entrepreneur. Likewise, the fear of failure deterring an interviewee from starting a business reached an all-time high, with 39.3%, of the overall respondents in 2014, up from 21.6% in 2006 and 38.8% in 2013. Figure 10 summarizes this set of mixed results.

The fear of failure deterring an interviewee from starting a business reached an all-time high, with 39.3%, of the overall respondents in 2014, up from 21.6% in 2006 and 38.8% in 2013.



Source: 2014 Philippine GEM Survey

Figure 10. Entrepreneurial Attitudes in the Philippines

There are psychological benefits to interacting with people who have effectively overcome the challenges of building their own businesses. In the Philippines however, the proportion of those who have had a chance to interact with such individuals dipped from 52.5% in 2006 to 42.4% in 2013 and continued to drop to 35.5% in 2014. Figure 10 also shows how in all cases, more men than women over the three-year period have had the opportunity to socialize with business people.

Consistent with the 2006 and 2013 findings, the 2014 outcomes also revealed that female respondents were slightly more optimistic and confident of their entrepreneurial abilities than their male counterparts: 45.7% (female) versus 45% (male) in anticipating a favorable business environment and 68.1% (female) relative to 67.3% (male) declaring that they had what it took to start a business.

Table 6. Entrepreneurial Perceptions in the Philippines

Intentions	% Total Respondents		
	2006	2013	2014
Entrepreneurial intentions (Respondents expect to start a business in three years)	45.9	44.1	45.3
Entrepreneurship is a good career choice (Entrepreneurship is preferred over employment)	46.5	84.8	79.9
High status to successful entrepreneurs	46.1	79.2	76.9
Media attention to successful entrepreneurs	42.4	86.7	85.1

3.2.2. Activities

The indicators for Philippine entrepreneurial activities fluctuated across the three GEM surveys. The nascent entrepreneurship rate of 8.9% in 2014, for instance, was lower than the 2013's 12%, but was higher than 2006's 5.5%. The same pattern holds for the rate of business discontinuance: 9.2% in 2014, below 2013's 12.3%, but above 2006's 8.5%.

New business ownership on the other hand, rose to 10.3% in 2014 from 6.73% in 2013. Both values, however, pale in comparison to the double-digit new business rate of 16% in 2006. Early-Stage Entrepreneurial activity (TEA) follows the same trend—higher in 2014 at 19.1% relative to 18.5% in 2013 with the two values at least two percentage points lower than 2006’s 21.3%. These are all summarized in Table 7.

Established business ownership rates continue their downward trend, with the highest percentage rate reported in 2006, 22%. The results dropped significantly to 7.3% in 2013 and slipped a bit more in 2014 at 7.2%. Part of the explanation for the steady decline in established business ownership is the Philippines’ consistently high discontinuance of business rate, which has outpaced all the economies in the region since 2006.

Established business ownership rates continue their downward trend, with the highest percentage rate reported in 2006, 22%.



Table 7. Stages of Entrepreneurial Activity in the Philippines

Entrepreneurial Stage	% Total Respondents		
	2006	2013	2014
Nascent Entrepreneurship Rate	5.5	12	8.9
New Business Ownership Rate	16.0	6.73	10.7
Early-Stage Entrepreneurial Activity (TEA)	21.3	18.5	19.1
Established Business Ownership Rate	22.0	6.61	7.2
Discontinuance of Business	8.5	12.3	9.2
Necessity-Driven (% TEA)	46.4	43.6	31.4
Improvement-Driven (% TEA)	41.4	38	30.9

Source: 2014 Philippine GEM Survey

Table 8. Involvement in Entrepreneurial Activity, by Gender (% of Total APS Respondents)

Entrepreneurial Stage	2006		2013		2014	
	Male	Female	Male	Female	Male	Female
TEA	9.4	11.9	10.06	17.99	7.6	11.6
Established Firm Owner/ Manager	14.8	7.2	5.48	7.71	3.3	3.9

Source: 2014 Philippine GEM Survey

Across the three-year period, more females have been involved in early-stage entrepreneurial activity (TEA) in the Philippines. For instance, 11.6% of female respondents claimed to own businesses that were between 12 to 40 months old, versus 7.6% for their male counterparts. The same pattern holds for the 2006 and 2013 GEM findings. These outcomes attest to the strong motivation and seemingly equal opportunities for both genders to start and operate businesses in the country. However, roughly the same percentages of males and females, on the other hand, were reported to belong to the established firm owners/managers in 2014, 3.3% male and 3.9% female. This indicates that a larger proportion of male-managed enterprises, relative to female-owned firms, traverse the 42-month mark (i.e. more female-managed enterprises close after three and a half years).

Across the three-year period, more females have been involved in early-stage entrepreneurial activity (TEA) in the Philippines.



The GEM data confirm that Filipino youth are actively involved in entrepreneurial endeavors. With higher unemployment (16.1%) and underemployment (18.3%*) rates relative to their non-youth counterparts (7.1% and 19.3%, respectively) in 2013, entrepreneurship provides a means to viable livelihoods for individuals aged 18 to 30** years. Not surprisingly therefore, the share of the youth in early-stage entrepreneurial activity (TEA) has been increasing since 2006: 38.9% to 40.1% in 2013 and 40.3% in 2014 (refer to Figure 11).

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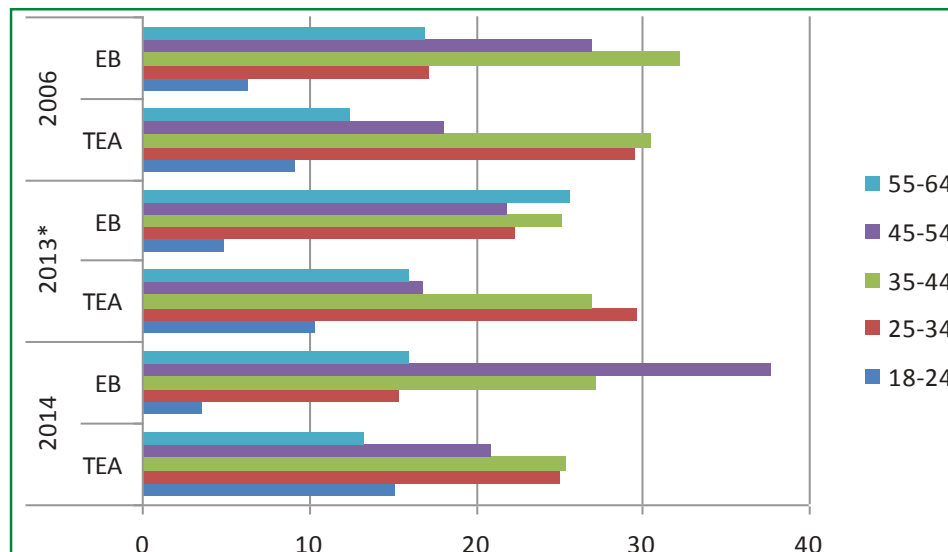


Figure 11. Age Group Involvement with Total Entrepreneurial Activity (TEA) and Established Business (EB)

* Computed based on the Bureau of Labor and Employment Survey data on youth employment and underemployment levels in 2013.

** The “youth” is defined by the Philippine Bureau of Labor and Employment Survey as individuals between the ages of 18 to 30.

The shares of youth to established firm/owner manager enterprises, however, rose and fell during the same time period, up from 23.7% in 2006 to 27.3% in 2013, but down to 18.9% in 2014 (refer to Figure 11). This implies that a smaller proportion of the younger generation of business owners were able to transition from start-ups to mature establishments. Comparing TEA and established business shares over the three GEM surveys reveals ever-shrinking proportions of established businesses were owned by the youth in 2006, 2013, and 2014.

Among the non-youth entrepreneurs, the business owners' shares in TEA among those 35–44 show a downward trend from 30.6% in 2006 to 27% in 2013 and finally 24.4% in 2014 (refer to Figure 10); whereas majority of TEA in the non-youth age groups during the same time period was credited to the 35- to 44-year old business owners. The largest number of established business non-youth owners, however, belonged 45- to 54-year old entrepreneurs, accounting for more than one-third of the total established businesses in 2014. The bulk of the increase originated from the share of the 55- to 64-year old age group, the share of which dropped by almost ten percentage points in 2014 from 25.7% in 2013 to 16.1% in 2014.

Among the non-youth entrepreneurs, the business owners' shares in TEA among those 35–44 show a downward trend from 30.6% in 2006 to 27% in 2013 and finally 24.4% in 2014



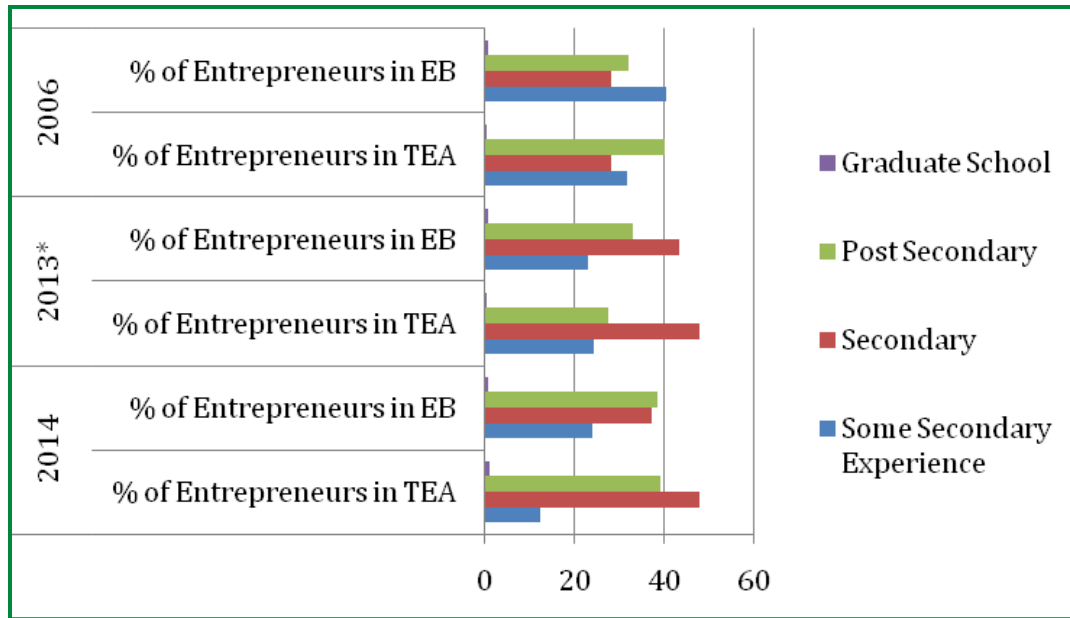


Figure 12: Educational Attainment of Filipino Entrepreneurs

Unlike in 2006 when 40% of early-stage entrepreneurial activity (TEA) owners reported having achieved at least post-secondary education, the 2014 results, similar to 2013's, indicate that the majority of TEA businessmen were high school graduates (47.9% and 47.6%, respectively). The schooling of established firm owners over time, however, has been improving—a good number received at least post high school education, from 31.8% in 2006 to 32.8% in 2013, peaking in 2014 at 38.5%.

In 2014, majority of those involved in early-stage entrepreneurial activity (TEA) and established businesses—83.8% and 72.7% respectively—were engaged in consumer services. This seems an emerging trend based on the results of the GEM surveys since 2006 (refer to Figure 13). Consumer services include a range of services encompassing retail, eating and dining places, hair, nail, and skin care, appliance and electronic repair, cleaning services, and laundry services. Most consumer services businesses are

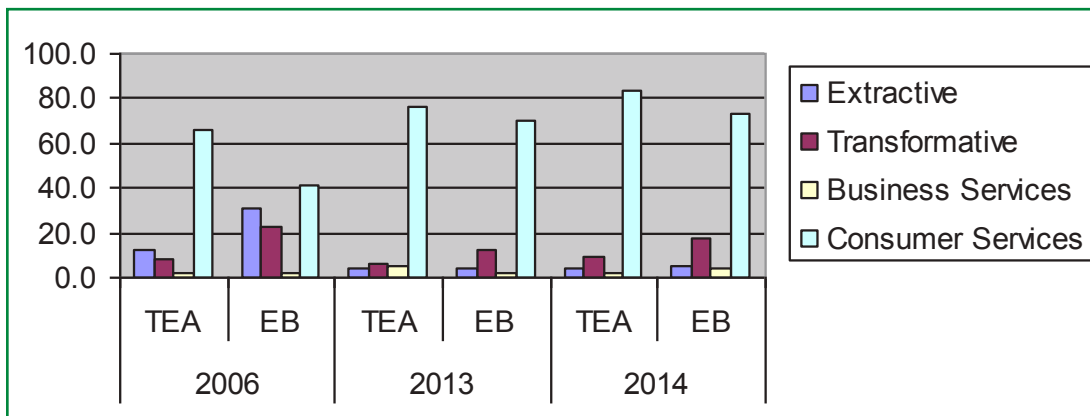
relatively flexible. They can be operated from homes and on a part-time or full-time basis, hence their appeal to a wide range of entrepreneurs.

In 2014, majority of those involved in early-stage entrepreneurial activity (TEA) and established businesses—83.8% and 72.7% respectively—were engaged in consumer services.



Following the pattern that originated in 2006, transformative and extractive enterprises ranked second and third in terms of types of early-stage entrepreneurial activity (TEA): 8.9% and 4.2%, respectively and established businesses with 17.5% and 5.6% respectively in 2014 (refer to Figure 13).

Despite garnering the smallest share, business services doubled their share of established businesses in 2014: 4.2% to 1.8% for TEA, suggesting that a larger proportion of business services crossed the forty-month threshold relative to other types of businesses during the survey year. Business services include advertising, architecture, consultancy, and microfinance firms, among others.



Source: 2014 Philippine GEM Survey

Figure 13. Types of Business of Filipino Entrepreneurs

According to the GEM 2013 and 2014 surveys, most businesses in the Philippines reported having failed because they were unprofitable. Indeed, at least one out of every four firms in 2014 and more than one out of five in 2013 reported closing due to problems with business solvency (refer to Table 9). The responses were reinforced by more than 20% of entrepreneurs in 2014—22.1% in 2013—who admitted that financing problems resulted in business closure. Research verifies that profitability is mainly determined by market share (Kessides, 1990), strategic management (Roquebert, Phillips and Westfall, 1996), and external market factors (Hansen and Wernerfelt, 1989). Growing start-up firms thus requires entrepreneurial education/training, financing, and a stable economy.

*According to the GEM 2013 and 2014 surveys,
most businesses in the Philippines reported
having failed because they were unprofitable.*



Personal reasons also rank high among the causes of business failures: 20.8% in 2014 and 18.2% in 2013. A closer examination of the data in 2014 revealed that these personal concerns range from illness and/or death in the family, child-rearing responsibilities, etc.

Lastly, it is notable that the share of business closures attributed to another available job or business opportunity doubled in 2014—from 1.8% in 2013 to 3.9% in 2014 (refer to Table 9)—indicating that entrepreneurship, for some, may be an option explored by those who cannot find work. Should a job then become available, they would choose to give up the business.

Table 9. *Reasons for Business Closure*

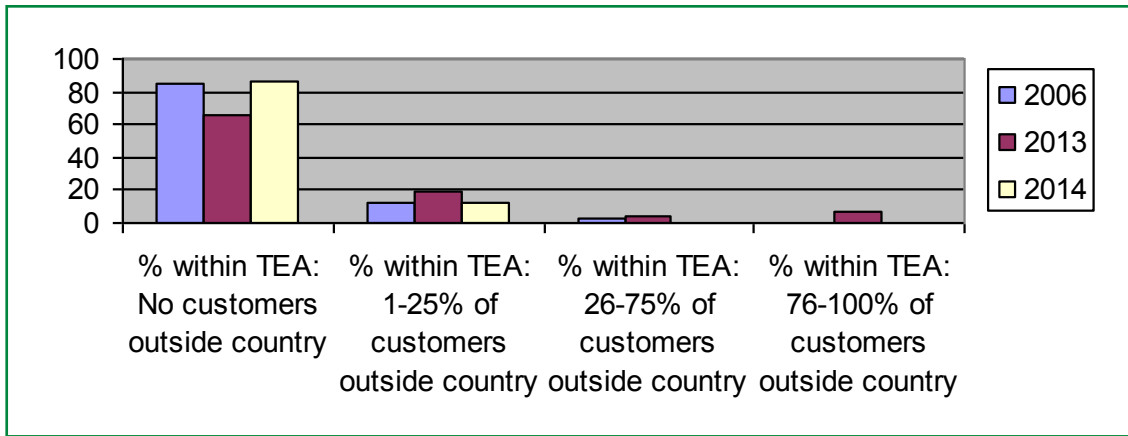
Reasons	% of Respondents	
	2013*	2014
Business not profitable	22.9	26.8
Others	28.3	21.3
Personal reasons	18.2	20.8
Problems getting finance	22.1	20.2
Another job or business opportunity	1.9	3.8
Incident	3.9	2.7
Don't know/Refused to answer	0.8	2.7
Planned exit	0.8	1.1
Opportunity to sell	1.2	0.6
Retirement	0.0	0.0

Source: 2014 Philippine GEM Survey

3.2.3. Aspirations

GEM defines entrepreneurial aspirations in terms of the expansion of markets (from domestic to international), and output (which raises the level of employment), as well as innovation or the creation and introduction of new products and services.

After considerable improvement in the share of TEA with customers outside of the country in 2013, the 2014 outcomes returned to their 2006 shares. For instance, the proportion of early-stage entrepreneurial activity with 1–25% of customers outside the country rose from 12% in 2006 to 19% in 2013; it is back to 12% in 2014 (refer to Figure 14). The pattern holds for the share of 76–100% within TEA that had access to foreign markets from 0% in 2006 to 7% in 2013, and back to 0% in 2014. Overall, 2014 has been a challenge for new Philippine businesses and world market penetration.



Source: 2014 Philippine GEM Survey

Figure 14. International Orientation of Philippine Total Entrepreneurial Activity (TEA)

The 2014 results for established businesses point to a universal difficulty of Philippine firms in reaching customers abroad. Overall, the share of enterprises older than forty-two months that cater to foreign clients, slumped from 33% in 2013 to 20% in 2014— which is also lower than the 21% recorded in 2006 (refer to Figure 14).

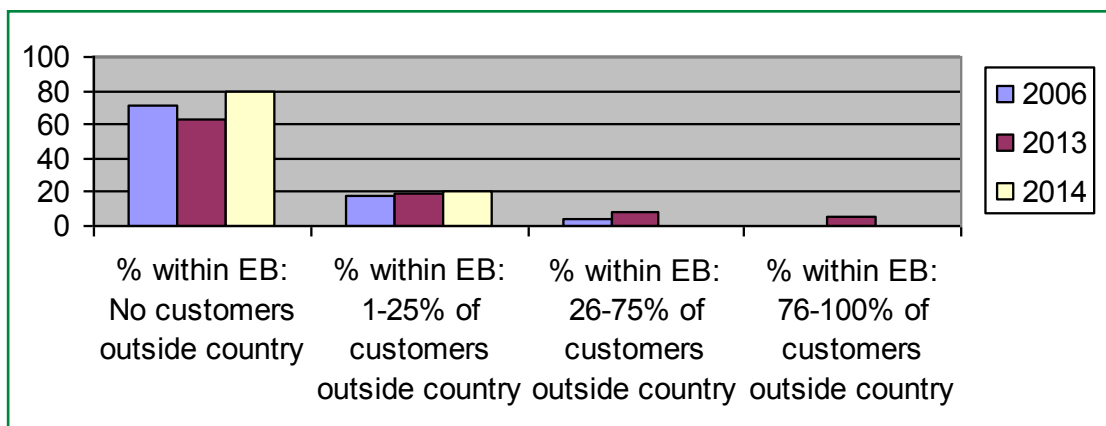


Figure 15. International Orientation of Philippine Established Business (EB)

Many scholars assert that export competitiveness is a function of firm-level characteristics, particularly firm size, firm age, and firm foreign affiliation (see Alvarez, 2002; Sarpong & Wolf, 2004, etc.). Younger and larger establishments, according to Sarpong and Wolf (2004), have greater propensities to explore and invest in penetrating foreign markets. In general, studies in the field (e.g., Lindbeck & Wikstrom, 1999) affirm that funding for research and development and innovation in the areas of technology, product, and markets is critical to successfully expanding overseas markets.



PART 4

Philippine Entrepreneurship: A Way Out of Poverty?

Many governments look to entrepreneurship as a way of speeding up economic growth and development. They believe that creating new businesses results in higher levels of employment and national income, and enhances a country's competitive advantage. At the microeconomic level, entrepreneurship not only contributes to individual fulfillment but also facilitates social mobility—"breaking through the barriers of class, age, gender, social orientation, and race" (Cooney, 2012). Developed and developing country governments alike have employed a myriad of strategies, chief among them microfinancing, to promote entrepreneurship across socio-economic classes.

4.1 Entrepreneurship and the Poor

The results of the 2014 Philippine GEM survey are consistent, particularly at the household level, as to the perceived importance of entrepreneurship. In Table 10, we find majority of respondents regardless of socio-economic standing believe that "businessmen have a high level of status" (77.5%) and that "starting a business is a desirable career choice" (80%). In addition, more than half the respondents, transcending income classes, claimed that they possess the necessary "knowledge, skills, and experience to start a new business" (65.5%) and that failure would not deter them from becoming an entrepreneur (59.2%). On the other hand, there are fewer respondents from low-income respondents starting a business than from higher income groups. The poor do not see entrepreneurship as a career option as much as higher income groups do. The poor have the least percentage among those who think that they have the capability to start a business as well as the willingness to take risks.

The poor do not see entrepreneurship as a career option as much as higher income groups do.



Table 10. *Perceptions of Entrepreneurs in the Philippines*

	Status		Career Option	Capability	Risk Taking	Start-ups
	Media	Personal				
Poor	79.6	84.0	74.9	57.5	57.2	29.7
Middle	84.7	74.6	82.2	68.8	60.4	39.7
Upper	88.2	74.6	83.5	71.6	57.5	45.6
Philippines	83.4	77.5	80.0	65.5	59.2	37.0

Source: 2014 Philippine GEM Survey

At the national level, the data in Table 11 further indicate that most of those involved in starting new businesses expect to own all or part of the enterprise (80.3%) and that would-be owners of these firms are mostly motivated by the desire for financial independence (33.4%) or higher incomes (37.4%). Among the poor, on the other hand, 74% plan to own all or part of the new businesses and would-be entrepreneurs are generally inspired by hopes of maintaining (34.7%) or raising their incomes (36.7%).

Table 11. *Are the Poor “Natural Entrepreneurs”?*

Sector	Motivation			Ownership (All or Part)	Innovativeness	
	Independence	Higher Income	Maintain Income		Technology (at most 5 yrs.)	Product (New)
	Poor	28.6	36.7		34.7	74.0
Middle	36.6	36.0	26.5	82.5	67.4	68.1
Upper	25.0	45.4	29.6	80.9	73.9	72.5
Philippines	33.4	37.4	28.5	80.3	67.3	67.7

Source: 2014 Philippine GEM Survey

In addition, roughly two-thirds of these new endeavors, regardless of income class, anticipate using technology that is less than five years old. New technology, given its potential to be more cost efficient and suitable for creating unique and innovative products or services, is an important element in the success of new enterprises.

Lastly, new and innovative products and services, while risky, are also more likely to generate higher profits and establish a larger customer base. The 2014 survey reveals that, at the national level, 67.7% of the potential entrepreneurs believe that their businesses will sell products or provide services that are new and unfamiliar. The low-income respondents' share of 64.2%, however, is lower than their upper- and middle-class counterparts of 68.1% and 72.5%, respectively.

The 2014 survey reveals that, at the national level, 67.7% of the potential entrepreneurs believe that their businesses will sell products or provide services that are new and unfamiliar.



Nonetheless, the positive overall outlook regarding entrepreneurship is also challenged by the 2014 Philippine GEM findings that, overall, fewer than 40% of those interviewed were actually involved in starting a business. In Table 10, we see that among the low-income interviewees, the share of those putting up their own firms of 29.7% was below their upper- (39.7%) and middle- income counterparts (45.6%) as well as the national shares (34.9%).

Experts claim that education and training are key determinants of profitability and the future growth of new businesses (Henry, Hill & Leitch, 2003), as they foster creativity and innovation (Cooney, 2012). Access to necessary information and the ability to process them

allow for a more accurate assessment of the market and the role of the entrepreneur's ideas in exploiting opportunities. The 2014 survey, however, indicates that on a national scale, less than 50% of those who were starting their own businesses completed post-high school education. A greater concern from Figure 16 is that the proportions of both high school and post-high school-educated potential entrepreneurs among the low-income class—46.5% and 30.2%, respectively—were below the national shares of 50% and 42%, respectively. Would-be entrepreneurs, per Figure 16, may also lack experience in starting and operating a business as almost 85% of them have not been involved in actual tasks associated with planning and organizing start-up firms, even as part of their normal employment.

Likewise, among the lowest thirty-third percentile income bracket, 30.3% of the potential entrepreneurs were putting up businesses not because they see opportunities in the market but because they have no other means of earning an income. The results in Figure 16 at the national level and for the middle and upper thirty-third percentile income brackets are significantly lower at 24.6%, 25.3%, and 8.9%, respectively. Stinson (2015) posits that the motivation for starting a business affects the entrepreneur's, and by extension the enterprise's, staying power, creativity, and willingness to take risks—notable characteristics of successful entrepreneurs. More troubling is the finding that less than half of these potential business owners were engaged in any actual start-up activities (i.e. preparing a business plan, looking for a location for the business, saving money for the business,

Among the lowest thirty-third percentile income bracket, 30.3% of the potential entrepreneurs were putting up businesses not because they see opportunities in the market but because they have no other means of earning an income.



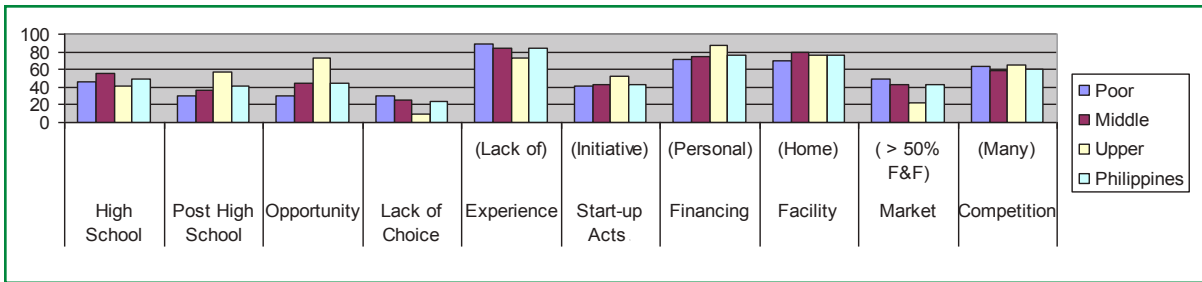


Figure 16. Entrepreneurial Appetite and Actual Entrepreneurial Ability

etc.) within the past year. Additionally, as far as the basic plans for their businesses, the 2014 survey results confirm that majority of the start-ups would be: 1) financed using personal and family savings as well as funds borrowed from friends—75.9% on the national level and 72.1% for low-income individuals; 2) operated from the homes of the new business owners—76.9%, Philippines, and 69.9%, lowest thirty-third percentile income bracket; and 3) marketed mostly to family and friends—42.2%, across all respondents, and 49.9%, among the low-income interviewees (refer to Figure 16).

The 2014 survey results confirm that majority of the start-ups would be: 1) financed using personal and family savings as well as funds borrowed from friends—75.9% on the national level and 72.1% for low-income individuals;



Finally, despite the majority’s response that the products and services that would be offered to the market are more likely to be new and unfamiliar, a considerable percentage of the 2014 respondents also revealed that would-be new business owners foresee a lot of competitors in their respective sectors/industries (60% on the national level and 63.2% among the low-income respondents).

Although entrepreneurship is seen as a way to economic development and a strategy to alleviate poverty, the 2014 GEM survey shows that those engaged in more viable forms of entrepreneurship are mostly from higher income groups. For the majority, what may seem like an overwhelming appetite for entrepreneurial activity may in fact be confounded with something more simple: a demand for stable, decent work (Banerjee and Duflo, 2011).

Although entrepreneurship is seen as a way to economic development and a strategy to alleviate poverty, the 2014 GEM survey shows that those engaged in more viable forms of entrepreneurship are mostly from higher income groups.



4.2. Entrepreneurship and the Youth

The youth (18–34 years) comprise the highest proportion of the Philippine working population. They also have the highest unemployment rate and a poverty incidence of 22%. The government sees the role of entrepreneurship as one of the catalysts to reduce unemployment. An analysis of the data on youth entrepreneurship is presented below using the 2014 Philippine Adult Population Survey.

4.2.1 Profile of Young Filipino Entrepreneurs

From 2013 to 2014, adults dominated total entrepreneurial activity (TEA) in the Philippines, with a 60:40 ratio in favor of females.

Youth female participation in the TEA increased slightly from 41% to 42%, more likely coming from higher income level of the young adult sector. Male involvement however decreased from 45% to 42%.

Table 12. *Total Entrepreneurial Activity (TEA): Profile of Youth and Non-Youth Entrepreneurs*

Demographics	% of Youth		% of Non Youth	
	2014	2013	2014	2013
Male	42	45	58	55
Female	39	37	61	63
Age	42	41	58	59
Income (lowest 33 percentile)	38	41	62	59
Education (post secondary)	48	48	52	52

Source: 2014 Philippine GEM Survey

Table 13. *Established Business (EB): Profile of Youth and Non-Youth Entrepreneurs*

Demographics	% of Youth		% of Non-Youth	
	2014	2013	2014	2013
Male	16.9	27.8	83	72.1
Female	20.5	27	79.4	72.9
Age	42.1	40.6	57.9	59.4
Income (lowest 33 percentile)	16.9	29.6	83	70.4
Education (post-secondary)	27.3		72.7	
Education (secondary)		26.6		73.4

Source: 2014 Philippine GEM Survey

Established businesses (EBs) within 2013 to 2014, however, exhibit a slightly lower female-male ratio of 55:45.

By 2014, youth engaged in established businesses increased from 41% to 42.1%, with most of these female-owned. Male youth-established businesses decreased by almost 11% compared to the rate for male adults. For income levels among the lowest 33%, youth-established businesses improved from 30% in 2013 to 17% by 2014.

By 2014, youth engaged in established businesses increased from 41% to 42.1%, with most of these female-owned.



Table 14. *Entrepreneurial Intentions and Attitudes: Youth and Non-Youth Entrepreneurs*

	% of Youth		% of Non-Youth	
	2014	2013	2014	2013
<i>Intentions:</i>				
Entrepreneurship as a good career choice (Entrepreneurship is preferred over employment)	48.5	46.6	51.5	53.4
High status to successful entrepreneurs	47.0	45.7	52.9	54.3
Media attention to successful entrepreneurs	48.5	47.2	51.5	52.8
<i>Attitudes:</i>				
Perceived opportunities	47.9	43.1	52	56.9
Perceived capabilities	45	43.2	54.9	56.8
Fear of failure	49.9	48.5	50.1	51.5

Source: 2014 Philippine GEM Survey

Within 2013–2014, media attention paid to successful entrepreneurs remains influential in shaping entrepreneurial intentions. There is a manifested general optimism in entrepreneurial intentions among youth compared to adults. 47% to 49% of the youth surveyed see entrepreneurship as a good career choice.

Within 2013–2014, media attention paid to successful entrepreneurs remains influential in shaping entrepreneurial intentions.



Youth respondents also perceive expanding opportunities and capabilities in contrast to a somewhat more downbeat, if more calculated, sentiment among adults in 2013–2014. This increase in perceived opportunities and capabilities is tempered however by a corresponding spike among the youth in their revealed fear of failure.

Job growth expectations among the youth slipped from 42% to 39% in contrast to the non-youth of whom 60.6% expect businesses employing one to five workers to grow, up from 57.7% in 2013.

Table 15 reveals rather low levels of innovation in the products of respondent entrepreneurs, both youth and non-youth. We see this in figures in which respondents accept that their products are unlikely to be recognized by customers as either new or unfamiliar, and that these products are commonly sold by other vendors.

Unlike in Table 15, established businesses among the non-youth show more signs of innovation. This is shown in the marked difference in results for product unfamiliarity and the likelihood that competitors offer similar products.

Table 15. *Total Entrepreneurial Activity: Aspirations of Youth and Non-Youth Entrepreneurs*

	% of Youth		% of Non-Youth	
	2014	2013	2014	2013
Job growth expectations (expected number of jobs in five years): 1-5	39.3	42.3	60.6	57.7
Innovations:				
How many potential customers consider product unfamiliar/new? None	40	37.8	60	62.1
How many businesses offer the same products? Many	42.9	41.6	57	58.3

Source: 2014 Philippine GEM Survey

4.2.2. Activities

In the 2014 survey, businesses were initiated mostly by the non-youth (57.7%). Adult respondents however were, by their own admission, driven by pressing need, in contrast to youth respondents who cited compelling opportunities.

In the 2014 survey, businesses were initiated mostly by the non-youth (57.7%).



Philippine data also recorded a decrease in startup businesses and nascent entrepreneurship nationwide from 11.4% to 8.9%. In spite of this, there seemed sufficient interest in starting firms, as seen by increase in youth nascent entrepreneurship and startup businesses, from 40.6% to 42.1%.

Table 16. *Established Businesses: Aspirations of Youth and Non-Youth Entrepreneurs*

	% of Youth		% of Non Youth	
	2014	2013	2014	2013
<i>Job growth expectations</i> (expected number of jobs in 5 years):				
None		27.3		72.7
1-5	21.3		78.7	
<i>Innovations:</i>				
How many potential customers consider product unfamiliar/new?				
All	18.6		81.4	
None		23		76.9
How many businesses offer the same products?				
Many	22		78	
Few		29.8		70.1

Source: 2014 Philippine GEM Survey

Table 17. Stages of Entrepreneurial Activity: Youth and Non-Youth Entrepreneurs

Entrepreneurial Stage	% of Youth		% of Non-Youth	
	2014	2013	2014	2013
Nascent Entrepreneurship Rate	42.1	40.6	57.7	59.4
New Business Ownership Rate	38.9	39.5	61	60.1
Early-Stage Entrepreneurial Activity (TEA)	40.3	40	59.7	59.9
Established Business Ownership Rate	18.9	27.3	81.1	72.7
Discontinuance of Business	40.9	44.9	59	55
Necessity-Driven (% TEA)	29.2	41.1	70.8	58.9
Opportunity-Driven (% TEA)	44	39.6	54.8	60.4
Start-up Business(% TEA)	42.1	40.6	57.9	59

Source: 2014 Philippine GEM Survey

Some of the effects of maturity and experience can be seen across age groups in that, among established business owners, around 81% of adults compared to only 19% of the youth. Of some concern, however, is that the rate of business discontinuance among adults rose from 55% to 59% in 2014.

In contrast, the youth’s rate of business discontinuance decreased from 45% to 41%, possibly indicating increased determination among the youth to manage and sustain their startup firms. This is significant as the overall Philippine rate of business discontinuance declined from 10.32% to 9.15%.

4.2.3 How the Filipino Youth Practice Entrepreneurship

The 2014 data on the youth found in Table 18 show results that do not differ significantly from the national and low-income figures. Similar to the perception at the national level and across income classes, majority of the youth hold entrepreneurs in high regard (75.6%) and deem “starting a business a desirable career” (80.7%). While 61.8% of the youth believe that they have the required “knowledge, skills, and experience to start a new business,” this percentage

is below the non-youth and national shares of 69.4% and 65.5%, respectively. Moreover, 57.2% of the youth respondents assert that failure would not deter them from starting a business. Confidence in one’s capabilities is critical for new entrepreneurs; in particular, belief in one’s self and one’s competence is linked with the willingness to take risks —another vital characteristic of successful entrepreneurs (Stinson, 2015).

57.2% of the youth respondents assert that failure would not deter them from starting a business.



Table 18. Perceptions of Entrepreneurs in the Philippines

	Status		Career Option	Capability	Risk Taking	Start-ups
	Media	Personal				
Youth	82.6	75.6	80.7	61.8	57.9	34.9
Non-Youth	84.2	79.6	79.3	69.4	60.7	39.2
Philippines	83.4	77.5	80.0	65.5	59.2	37.0

Source: 2014 Philippine GEM Survey

The responses of the youth in Table 19 also show that would-be owners of new businesses would be better educated —47.4% were high school graduates and 46.8% had post high school education relative to the 37.8% and 35.5%, respectively, of their non-youth counterparts. Similar to the non-youth potential entrepreneurs, majority of the youth (80.7%) expect to own all or at least part of their start-up businesses.

Table 19. Education and Motivation

Sector	Education		Motivation		
	High School	Post High School	Independence	Higher Income	Maintain Income
Youth	47.4	46.8	39.4	36.4	24.2
Non-Youth	37.8	35.5	26.4	39.1	33.3
Philippines	50.0	42.0	33.4	37.4	28.5

Source: 2014 Philippine GEM Survey

Table 20. Entrepreneurial Motivations and Innovativeness

Sector	Motivations		Innovativeness		
	Opportunity	Lack of Choice	Ownership	Technology (at most 5 yrs.)	Product (Common)
Youth	51.1	17.6	80.7	74.0	64.1
Non-Youth	40.1	30.9	80.5	62.5	70.4
Philippines	44.8	24.6	80.3	67.3	67.7

Source: 2014 Philippine GEM Survey

The younger generation seems inspired to start their own businesses by perceived opportunities (51.1%), the promise of independence (39.4%), and higher incomes (35.4%). Additionally, while all potential entrepreneurs included in the 2014 survey maintain that they would utilize technology that is relatively new (less than five years old), a greater proportion of the youth respondents claim this at 74% vis-à-vis the non-youth (62.5%) and the national (67.3%) shares. Finally, from Table 20, majority of the younger generation, 64.1%, also assert that their business would be offering new and unfamiliar products/services.

The younger generation seems inspired to start their own businesses by perceived opportunities (51.1%), the promise of independence (39.4%), and higher incomes (35.4%).



While the data and discussion above point to what appear to be a promising future for young entrepreneurs, only a little more than a third of the interviewed youth (34.9%) confirm that they are in fact starting a new business (refer to Table 18). Moreover, their replies to questions pertaining to the essential aspects of starting a business, specifically experience, planning, and start-up preparations do not differ considerably from their non-youth counterparts and overall survey responses. First, as Table 21 shows, a mere 40.3% of the young would-be business owners said that they have been engaged in any of the tasks necessary for starting a new business in the past 12 months (i.e. saving, finding a location for the business, preparing a business plan, etc.). Second, majority of those who stated that they were embarking on the road to entrepreneurship, 84.7%, have little or no experience in starting a business nor have been involved in the same as part of their regular/past jobs. Consistent with their non-youth counterparts and overall survey outcomes, majority of the youth would be: 1) financing the business out of their own savings or source the funds from family and friends, 80.2%; 2) running the new businesses out of their homes, 68.7%; and 3) marketing more than 50% of their goods or providing the services of their businesses to family and friends, 43.5%. Lastly, the data also reveal that as with their non-youth counterparts, the younger generation of entrepreneurs anticipates strong competition in their chosen sectors/industries (64.1%).

Majority of those who stated that they were embarking on the road to entrepreneurship, 84.7%, have little or no experience in starting a business nor have been involved in the same as part of their regular/past jobs.



Table 21. *Entrepreneurial Appetite and Actual Entrepreneurial Activity*

Sector	Experience	Start-up	Financing	Facility	Market	Innovativeness
	(Lack of)	Activities	(Personal)	(Home)	(> 50% F&F)	Competition
Youth	84.7	40.3	80.2	68.7	43.5	64.1
Non-Youth	84.6	45.9	71.7	84.2	40.8	56.6
Philippines	84.6	43.3	75.9	76.9	42.2	60.0

Source: 2014 Philippine GEM Survey

Youth entrepreneurship can sustain and energize economic growth in part because the young have time on their side, even if on occasion this may mean a slow and costly learning process.

4.3. What it takes to be a successful entrepreneur in the Philippines

For a developing country such as the Philippines, entrepreneurial activities play an important role in providing alternative sources of income. As of 2012, there were 940,886 registered micro-, small and medium enterprises (MSMEs) in the Philippines (99.6% of the total establishments), majority of which are in retail and wholesale. The GEM 2014 survey confirms that most of the types of businesses are in retail, particularly in sales of food and beverage items and other essentials. This is reflected in the vast number of so-called *sari-sari* stores or retail stores and food stalls in the country. One of the reasons behind their popularity as a start-up business is the small amount capital required for starting, as well as the possibility of operating from one's home.

Based on the 2014 survey, there were a total of 382 total entrepreneurial activities and a total of 143 established businesses. From these micro and small businesses, we tried to investigate the characteristics of those who succeeded in their businesses. In their influential book *Poor Economics*

(2011), Banerjee and Duflo re-examine the notion, often taken for granted, that everyone has a real shot at becoming a successful entrepreneur. As part of this Report, we mine the GEM 2014 data and use descriptive statistics and cross tabulations, to examine whether this default optimism is well-founded.

4.3.1 *Is conviction in one's ability enough to succeed?*

One of the first steps to starting a business is having the courage to enter the market and compete against the other players to earn a sizeable amount of profit. But is this what most hopeful entrepreneurs are thinking when they start a business? When asked whether they have confidence in their skills and knowledge, 92% answered yes for the TEA, 90% for the EB based on Table 22. They may have the confidence and optimism about their abilities but, upon closer inspection, it seems fewer of them possess real knowledge about what competing in the market entails. This is reflected in their main motivation for starting a business which is opportunity.

Most of the TEA respondents (68%) start their businesses because they feel that there is an opportunity. Seeing an opportunity can make them confident in their ability especially when they see their neighbor operate a similar business. The prospect of a successful business eventually leading to a steady income is undoubtedly tempting, but the illusion fades easily as soon as the business takes off and they begin to experience low overall profits, i.e. actual

Table 22. *Confidence in Skills and Knowledge*

	Male	Female
TEA	134	59
EB	216	70

Source: 2014 Philippine GEM Survey

amounts of money too low to sustain their total expenses. Confidence in their business also stems from the idea that the business is relatively easy to manage since most of them operate out of their homes. About 76% of the TEA (79% for EB) responded that the business was operated from home. This however can spell problems, foremost among them that the business may end up competing for time with the many other responsibilities of the owner. More of these will be discussed in succeeding sections.

4.3.2. *Timid young entrepreneurs*

We ask the same question of the youth and somewhat surprisingly, the non-youth are more confident of their skills and knowledge. About 59% for the TEA while 83% for the EB of the non-youth express high levels of confidence in their entrepreneurial abilities. Age and experience could be two factors as to why the older entrepreneurs are more confident. Shane and Venkataraman (2000) suggest that entrepreneurs who are educated and experienced have a higher chance of stumbling upon an entrepreneurial opportunity. Rarely do we encounter young entrepreneurs who are confident except those who possess degrees, as well as adequate training and experience in running a business. Based on success stories

Table 23. *Confidence in Skills and Knowledge Among Young Entrepreneurs*

	Male	Female
For TEA		
Youth	54	11
Non-youth	84	13
For EB		
Youth	80	48
Non-youth	132	57

Source: 2014 Philippine GEM Survey

from young entrepreneurs—only a small proportion, likely those exceptionally talented and resourceful, are able to cross the threshold from startups to established businesses.

4.3.3. Innovation and creativity set an entrepreneur from the rest

Most successful entrepreneurs have one thing in common: they thrive in a dynamic market because they are able to adapt to change. One of the ways to do so is to introduce products that are considered innovative and creative. Studies such as those by Chorda and Perales (1997) support the claim that innovative entrepreneurs are more likely to succeed in their businesses. Along with their creativity and innovativeness is being open to change as doing so allows them to be sensitive to changes in market demand. Based on the 2014 GEM survey, most of the entrepreneurs (74% for TEA and 80% for EB) revealed their opinion that the products they are selling in the market are not novel. More than one-third of the entrepreneurs in the survey are in the micro-retail *sari-sari* store business (34%), while 27% of them operate a food stall/cart/shop. Some engage in services such as hairdressing, tailoring, vulcanizing, operating a water refilling station, and painting, among others.

Based on the 2014 GEM survey, most of the entrepreneurs (74% for TEA and 80% for EB) revealed their opinion that the products they are selling in the market are not novel.



These are the common entrepreneurial activities that can be found in small communities or villages, both in the urban and rural areas. The popularity of these types of business is not a surprise since starting this kind of business requires a small amount of capital and most of the time the business is managed from one's home. Around 76% of the TEA

respondents operate their businesses at home while 79% of the EB respondents answered similarly. This makes sense especially for entrepreneurs who do not have enough capital and the luxury of being away from home because of family responsibilities. The data also show that most who engage in selling generic or undifferentiated products are female and married, 60% on the average.

The data also show that most who engage in selling generic or undifferentiated products are female and married, 60% on the average.



Table 24. *Entrepreneurs Capable of Offering New Products*

	Male	Female
TEA	39	60
EB	13	15

Source: 2014 Philippine GEM Survey

Only a few engage in businesses one might consider innovative. The results of the survey reveal that the few innovative businesses sell beauty products (sometimes personalized and cater to different needs of customers: whitening, smoothening, etc.), ornaments and handicrafts, among others.

We see the same story among the young entrepreneurs: most of them do not differentiate their products from the rest (TEA 27% and EB 64%). The data also reveal that only a few received training in starting a business after graduation. For those aged 18 to 24 years, only 8% received training while only 17% in the age cohort 25 to 34 years old did so. Lack of training and exposure to different ideas restricts the ability to innovate. A talented and motivated young individual may have the drive to start a business but without training and even guidance from the experts in the field, success is difficult to come by.

Table 25. *Young Entrepreneurs Offering New Products*

	Male	Female
For TEA		
Youth	14	22
Non-youth	25	38
For EB		
Youth	0	4
Non-youth	13	11

Source: 2014 Philippine GEM Survey

Another limitation often faced is the amount of capital needed to start a business. Introducing new products into the market could be costly especially when there is a need to compete aggressively. As a result, many respondents engage in microbusinesses such as *sari-sari* stores and food stalls which are less costly to start and maintain. Moreover, there remains the notion that these types of business require less time in setting up since the retail items are readily available. This is a sentiment shared by most of the poor entrepreneurs who were interviewed in Lamberte's (2011) work. The profile of poor entrepreneurs interviewed included mostly married females who were left at home to take care of the family and with only high school level education.

In one of the case studies in Lamberte (2011), a respondent from Cagayan de Oro was in the sack business for some time. She repaired used rice sacks and sold them to rice mills and rice retailers. She continued this business without trying to improve her product or offer new ones, until the business eventually failed due to deteriorating demand. Little did she realize that the market was changing and she was not able to catch up with the other suppliers who used more advanced technologies and producing the rice sacks at lower cost. She

closed her sack repair business and started a small food stall but this was short-lived as well; she learned that most of her neighbors either cooked their own food or did not have enough funds to eat out or take-out food. These accounts show how the absence of innovation will eventually lead to the failure of many micro-enterprises.

Another case study, still in Lamberte (2011) recalls a different outcome despite the limitations of being poor. A married female entrepreneur from Muntinlupa used to do laundry to contribute to household income. She saved some of it and saw an opportunity to sell cold drinks (*palamig*) and fruit in her neighborhood. Her business grew until she was able to save enough money to sell rice and become a soft drink dealer. She took advantage of the perks given by the beverage company from which she obtained her soft drinks, and used these to make her business profitable. She was able to save enough capital until she opened another business, this time selling appliances. One advantage she had was that every time she ventured into a small business, she made sure that she was the only one selling the product in the area (Lamberte, 2011). This ensured a reliable market base and led to the success of not only one business, but all that she ventured into.

4.3.4 Optimism for the Future?

Hope generates motivation which in turn leads people to work harder. But what if all hope is lost for an entrepreneur because of low morale caused by fears of low or zero profits? This will most likely lead to the failure of a business. When

*Most entrepreneurs, at least among the poor,
are not optimistic about their own businesses'
growth prospects.*



Table 26. *High Expectations for the Future*

	Male	Female
TEA	9	7
EB	1	2

Source: 2014 Philippine GEM Survey

asked the question on whether TEA and EB respondents have high expectations about the future, most of them answered in the negative (96% and 98% respectively). Most entrepreneurs, at least among the poor, are not optimistic about their own businesses' growth prospects.

Different factors may affect expectations about the future and these could be either external or internal. External factors could be major events that negatively affect one's optimism such as an economic recession or a political crisis. On the other hand, internal factors could be the status of the business: whether it is profitable or not. Observing a business' low profits can be discouraging and may eventually contribute to failure. Bankruptcy or issues of profitability are the top reason (33%) why TEAs have shut down their businesses. This is followed by the lack of capital (17%) and family responsibilities (13%).

Of the unprofitable businesses, only 24% of TEA (27% of EB) reported paying salaries. This implies that almost three-fourths of all entrepreneurs surveyed do not have paid employees. Instead, they either manage the business on their own or they seek the help of relatives who are willing to assist even without regular pay. Perhaps their family relationships compel them to help knowing that in the future the favor could be returned.

*Of the unprofitable businesses, only 24% of TEA
(27% of EB) reported paying salaries.*



A reluctant entrepreneur, or one who started a business just for the sake of it, usually has many family responsibilities. This is one of the reasons why most of them operate their business from home. As the demographic statistics in the 2014 survey show, most are female, married and have an average family size of five members. The female entrepreneur's primary role remains taking care of the family while the husband is working. One of the female entrepreneurs resorted to a small venture business because her husband got sick and she had few marketable skills, having only reached high school. Operating a *sari-sari* store was the best option for her as it allowed her to still take care of her family. However, were something overwhelming to happen to her family, she would immediately close down the business. One respondent in the 2014 survey reported that she had to shut down her business because her father was terminally ill and she had to devote more time to taking care of him. Moreover, the capital was used for medicine and the rehabilitation of her father. In another account, the entrepreneur had to shut down the business because she became pregnant and soon needed to take care of the infant.

But is having family responsibilities a hindrance to business success and profitability? Or is it more because they channeled all their financial resources from the business to the family in the absence of safety nets such as health care, pension insurance, or educational plans? It could be inferred from the 2014 data that most families either do not have savings for fortuitous events, or they have savings but do not know how to grow these funds, and they eventually get used unproductively. This is exemplified by those cases in which profits generated from small businesses end up being used for family emergencies.

The young entrepreneurs surveyed also share the same sentiments: most of them do not have high expectations for the future. For TEA, only 1% of the poor and young entrepreneurs are hopeful about their businesses. They feel that their business will not succeed in the future due to their limited experience, but more importantly, they are keen about finding stable jobs, which they perceive can only be provided through a full-time employment in conventional, not entrepreneurial, work. The feeling of economic security also plays an important role in the expectations of the youth. This sense of security can usually be found in a stable full-time job because of the regular salary they receive, along with mandated benefits such as health and pension insurance.

Table 27. *Young Entrepreneurs' High Expectations for the Future*

	Male	Female
For TEA		
Youth	4	3
Non-youth	5	4
For EB		
Youth	0	1
Non-youth	1	1

Source: 2014 Philippine GEM Survey



PART 5

Barriers to Becoming Successful Entrepreneur: Conclusion and Recommendations

5.1 Getting Over the Hump

Does everyone have a real shot at becoming a successful entrepreneur? We investigate three characteristics of entrepreneurs through simple descriptive statistics: confidence in skills and knowledge, ability to offer new and innovative products, and high expectations for the future. Our analysis here zeroes in on TEA and EB entrepreneurs, especially the poor and young.

Findings from the descriptive statistics reveal that although most of the respondents have confidence in their skills and knowledge, this confidence is in general not matched by their actual ability to make the business sustainable and eventually successful. Their limitations may be summarized as two obstacles: hidden costs and risks. Based on the 2014 data, most of the poor entrepreneurs, especially in the TEA, are female and married. In many cases, being female has traditionally meant one has to take care of the family, as part of long-established gender roles. Added to this is the prospect of lower levels of productivity in one's delicate state. There is an opportunity cost attached to being a female entrepreneur: one often has to give up some family duties in order to work or earn a living. This becomes more of a problem if one's husband loses his job. The hidden costs can also be evident in the conditions that often confront the eldest in the family. When the family experiences a financial crisis, it is usually the eldest who sacrifices school attendance in order to look for a job. These hidden costs are usually high, prevalent, and onerous for poor families who do not have extra income to, say, hire a helper to lighten the load of the wife, or invest in an educational plan for the children. Because of these high hidden costs, once the individual ventures into a small business, the likelihood is that one will have to make large sacrifices that prove ruinous to one's small business.

The second obstacle is risk. This refers to inevitable unfortunate events or hazards. These are environmental and/or social risks that families inevitably face. These include illness, natural calamities, financial crisis, old age, among others. In the 2014 GEM survey, the lack of insurance has led to one of the most frequently-cited reasons for business closure: natural calamities. For instance, Typhoon Yolanda heavily affected families in the Visayas region and many who had businesses but no insurance declared bankruptcy. Another reason frequently cited in the survey is that the capital was used up in family emergencies.

Because of these obstacles that appear as urgent concerns, one's creativity and ability to innovate are often compromised. Time and resources are diverted to cope with these hidden costs and risks, instead of them being invested in productive activities such as training or experimenting with new technologies, or expanding one's network to exploit new opportunities.

This is where we may formulate a number of policy recommendations. Most of these recommendations refer to interventions and policy rethinks that may help government fully realize the potential of entrepreneurship in the Philippines. Though the role of the private sector is crucial, development specialists such as Banerjee and Duflo (2011) nevertheless emphasize the critical role of government intervention, particularly in providing safety nets for the vulnerable and creating conditions that allow microentrepreneurs to thrive.

First, on hidden costs and risks: the data and accounts from the 2014 GEM surveys affirm the long-held notion that social conditions can either raise the costs of doing business or facilitate business. Efforts to expand the coverage of social insurance programs like PhilHealth or anti-poverty

programs like the Pantawid Pamilyang Pilipino Program (4Ps) thus do not only improve health and education for future generations, they also reduce the hidden costs of micro-entrepreneurship. When combined with a gender component, they can be especially effective at unleashing the potential of female entrepreneurs who are at present held back by difficult conditions at home and sometimes onerous social roles.

Despite the formidable challenges of creating efficient insurance markets even in developed economies, governments must persist. Part of the effort must be in addressing so-called “last-mile” problems: failures to disseminate information widely, lack of interest leading to low enrollment rates, etc. In some cases, mandatory insurance is necessary, but implementation can be made less onerous by “bundling” enrollment with other government services that the public considers more vital. Several notable examples are documented in Thaler and Sunstein’s widely-acclaimed *“Nudge: Improving Decisions About Health, Wealth, and Happiness”* (2008).

Second, there is the matter of better targeting, of correcting mismatches. Social insurance may lower the costs and risks of entrepreneurship across the board, but inefficiencies, if not addressed, will continue to retard progress. Consider the following:

- a. Public and private resources are spent to encourage interest in entrepreneurship via programs and seminars—even if interest and optimism have already been high. Yet a high failure rate among micro-entrepreneurs suggests that social resources may now be better spent either equipping existing entrepreneurs to move from micro- to small, or small to medium enterprises—or better targeting

prospective “winners” whose business plans and abilities show innovation and potential to crack international markets

- b. Now that reforms in the basic education cycle have explicitly introduced an entrepreneurship track for Grade 11 and Grade 12 students, both the public and private sector can seize the opportunity to re-shape the curriculum. Specifically, the right balance must be struck in order that the next generation of entrepreneurs are encouraged to consider careers in business, yet not sold unrealistic messages. In the same way that parents are now urged to ask children “what kinds of problems do you wish to solve?” instead of the traditional “what do you want to be when you grow up?” (National Catholic Register, 2012), we can shift the emphasis of entrepreneurial education from rewards to values such as attentiveness, innovation, and international market penetration.
- c. Many sponsored seminars and training programs inevitably encourage self-reliance, yet we know now from the data on business closures that entrepreneurial survival comes from crossing a threshold scale of output or sales. Yet realizing this threshold output also means exploiting economies by learning to pool resources or tap into larger sources of financing or information—something that cannot be accomplished unless one is willing to go beyond one’s limited network of family and friends. Perhaps it is time to address these “second-generation” issues of innovation and expansion to ensure that entrepreneurship delivers on its promise to those who rely on it.

Our conclusion from the data collected in the 2014 GEM survey is that the Philippines has some way to go in realizing the full potential of entrepreneurship, despite public enthusiasm and social support. At least some of that enthusiasm is discounted by circumstances that lead individuals to entrepreneurship as a last resort, a kind of proxy for what they may really demand: a stable income from a steady job. We see this in the contrast between their hopes for entrepreneurial activity and their actual capabilities and actions, especially in the critical areas of innovation and market penetration.

5.2. Pondering the Issues

Are the poor and the youth “natural born entrepreneurs”? The 2014 Philippine GEM data show that, across income classes and age groups, respondents hold business people in high esteem. They believe that there are good opportunities for starting a business in the country and majority claim that they have the required knowledge and skills to own and manage a business. Confidence and the ability to recognize the needs of the market are very important characteristics of successful entrepreneurs. The respondents who were in the process of putting-up their own businesses also assert that they will utilize technology that is less than five years old and that majority of their target clients would consider their products and services as new and unfamiliar, which speaks to the third essential element of success in the market: product differentiation or innovation.

Nonetheless, despite their optimism, only a third of the interviewees confirmed that they were starting their own firms. Might this be evidence that the majority in fact prefer jobs that offer stable incomes? Indeed, among the poor and the youth, earning a large income tops the reasons for starting a business. More telling is that among the low-income respondents, potential entrepreneurs admitted that

the “lack of choice” tipped the scale in favor of a business venture. Is entrepreneurship then, especially for the poor, the only alternative left when “good jobs” are not forthcoming? Follow-up questions in the survey further reveal that: 1) less than a third of the would-be entrepreneurs belonging to the low-income class have post-high school education and 2) more than 80% of the poor and youth do not have experience in starting a business. Given that educational attainment and work experience are necessary requirements for employment in the formal sector, could above point to the real reasons for the low-income class respondents’ choice of becoming entrepreneurs?

Hence, are the poor/youth “natural born entrepreneurs” or is starting a business the remaining option available to the poor and the youth who are unable to secure gainful employment? Perceptions and optimism aside, the 2014 Philippine GEM data suggest that further investigation may be warranted not only to answer this question, but also to find a better way of improving the welfare of the Philippines’ marginalized sectors and growing this nation’s start-up businesses.

In addition, the 2014 Philippine GEM data also indicates that more than 50% of the target market of majority of the start-up businesses is the entrepreneurs’ family and friends. Is this a signal of the limited network/vision and appeal/applicability of what were categorized by the respondents as “new” products and services or a consequence of the lack of strong motivation and information on market needs or both? It is worth considering as the profitability and growth of any business venture are often built upon market niches with strong potential for expansion.

Furthermore, while the results of the 2014 Philippine GEM survey answer a number of interesting questions regarding entrepreneurship in the country, the data gathered also

pique one's curiosity regarding the nature of entrepreneurs in the country. Notable in the survey responses, for instance, is that potential business owners, across income classes and age groups, rely heavily on personal (family and friends) financing at the start of the business venture. Is this decision a product of choice or the lack thereof? Is funding for start-ups available and accessible for majority of new entrepreneurs? If it is, is the information widely disseminated/accessible to those contemplating upon entering the market? Or are Filipino entrepreneurs averse to borrowing money for the purpose of starting a business? Data on the required start-up capital show that 50.8% of the low-income bracket potential businessmen and 32.8% of their youth counterparts need between PhP200 and PhP5,000 to put up their respective enterprises. Given this, are family and friends better sources of financing for new enterprises because of what could be more lenient repayment terms (i.e. interest and payment schedules)? While this may be a natural choice for would-be entrepreneurs, a downside of foregoing the more formal sources of financing, say banks, however, is that potential business owners miss out on the rigorous evaluation of their ideas, plans, and assessments of the market (i.e. target market) by more experienced individuals or industry experts.

A second interesting issue that cuts across demographics (income classes and age groups) is the choice of a considerable proportion of new entrepreneurs to locate their businesses at home. Could this decision be a product of insufficient capital or personal considerations (i.e. risk associated with renting a business space, running a business at home and tending to household responsibilities/raising children, etc.)? Are Filipino entrepreneurs initially utilizing homes for start-up ventures as a means to defray costs (i.e. rent, utilities, etc.)? Could subsidizing emerging “innovative”

business ventures in this manner a more efficient way of ensuring their viability and growth?

Lastly, as the 2014 Philippine GEM survey results do not differ significantly across demographics (i.e. income class and age groups), it can be argued that the answers to these questions would also apply to all potential Philippine entrepreneurs in 2014.

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